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DEPARTMENT OF AGRICULTURE'S BUDGET REQUEST FOR FISCAL YEAR 1989

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

THE BUDGET OF THE U.S. DEPARTMENT OF AGRICULTURE FOR THE FISCAL YEAR 1989

MARCH 22, 1988

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DEPARTMENT OF AGRICULTURE'S BUDGET REQUEST FOR FISCAL YEAR 1989

TUESDAY, MARCH 22, 1988

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:17 a.m., in room 332, Russell Senate Office Building, Hon. Patrick J. Leahy (chairman of the committee), presiding.

Present or submitting a statement: Senators Leahy, Pryor, Harkin, Conrad, Daschle, Lugar, Bond, Wilson, and Karnes.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning. I apologize for the delay. We had a couple of matters that both Senator Lugar and I wanted to discuss with the Secretary prior to starting, and did not want to tie up the regular meeting to do that.

I also want to announce that the FIFRA meeting, scheduled for tomorrow morning, will be delayed for a week. We have a number of items that are progressing very well at the staff level and rather than tie up the staff, which is necessary for a regular markup session, I would rather they continue to work because I think the next markup session would move that much quicker as a result.

I have a statement, but I think I will withhold, Mr. Secretary, because we are starting late. I will yield to Senator Lugar and then to you, sir. I will withhold my statement until after that. Dick.

Senator LUGAR. Mr. Chairman, I will follow your good example and simply say that it is always an honor to the committee to have the Secretary of Agriculture with us. He is a good friend and we appreciate the opportunity to visit with him and hear his testimony this morning.

The CHAIRMAN. I will echo that. At the risk of the Secretary being summarily dismissed from the Cabinet, I will repeat what I said about him at a GATT meeting in Geneva a couple of weeks ago. I think he is one of the finest Government officials I have had the opportunity to work with in either Democratic or Republican administrations. He is a superb Secretary of Agriculture and he has made my life easier and it certainly has been a joy and pleasure working with him.

Mrs. Lyng would not agree with this, but I wish you could be here next year to do this around this table, too. Now that I have

ruined all your credentials with the administration by that, Mr. Secretary, we yield to you.

STATEMENT OF RICHARD E. LYNG, SECRETARY, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY STEPHEN B. DEWHURST, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

Secretary LYNG. Mr. Chairman, and Senator Lugar, I love what I have heard and I really suspect that if I were wise, I would absolutely quit right now because I am way ahead.

I am pleased to be here this morning before the committee. I have with me our Budget Officer, Mr. Stephen Dewhurst.

I have a prepared statement which I would like to provide for the record. I would, though, like to summarize my remarks beginning with some observations about the overall state of the farm economy.

CURRENT AGRICULTURAL SITUATION AND OUTLOOK

The agricultural economy has begun to stabilize, and in some significant respects, to recover from the unfavorable trends of recent years. The Food Security Act of 1985 has played an important role in turning things around. Declining surplus stocks have contributed to strong market prospects for many commodities.

Cash farm income was a record $57 billion in 1987 and is expected to remain high, at $50 to $55 billion in 1988. However, Government payments still represent too high a proportion of farm income.

Exports are improving. Volume increased from 110 million metric tons in 1986 to 129 million metric tons in 1987 and is expected to climb again to 143 million metric tons in 1988. Export value is also up nearly 24 percent over the past 2 years.

We are working hard to further improve the export picture through negotiations and actions to deal with unfair trade practices.

As the farm economy improves, farm debt levels are being reduced. In addition, land values have stabilized and in some States have increased 8 to 10 percent last year.

There are still trouble spots and we will continue to use our legal authorities, particularly those with the Farmers Home Administration, to work with farmers who are in need of extra help.

BUDGET PROPOSALS FOR FISCAL YEAR 1989

Now, with respect to the budget. The 1989 budget is consistent with the summit agreement. It does not propose new user fees, changes in the food assistance programs, changes in the crop insurance program, or significant changes in the farm programs except sugar.

SUMMIT AGREEMENT

Also consistent with the summit agreement, the budget does not propose supplementals or rescissions for 1988. It is a fiscally responsible budget that, at the same time, provides the necessary funds for a number of significant proposals which I will mention in these remarks.

We should remember that the biggest USDA spending programs are largely uncontrollable and estimates are therefore very tentative. CCC estimates anticipate general economic conditions, individual planning decisions for tens of thousands of farmers and, of course, the weather. Food assistance programs respond to a variety of economic factors.

SPECIFICS OF THE BUDGET

Now, with reference to the specifics of the budget. The budget estimate for cash outlays for USDA is $48.3 billion in 1989, a reduction of $2.4 billion or about 5 percent below the $50.7 billion now estimated for 1988.

Our appropriations request is, in fact, reduced by almost $10 billion from $51.9 billion to $41.9 billion. The vast majority of this reduction is due to reduced cash requirements in the Commodity Credit Corporation. Lower outlays for CCC activities in both 1988 and 1989 have reduced the appropriations requirements of the CCC.

CCC OUTLAYS

CCC outlays are estimated at $17.1 billion. When compared to estimates made last fall, total CCC outlays for 1988 and 1989 are down nearly $5 billion. About half this reduction is due to changes in supply and demand estimates and about half due to the Budget Reconciliation Act of 1987. To fund the CCC, the budget requests a current indefinite appropriation, as authorized in the 1987 Budget Reconciliation Act.

INTERNATIONAL PROGRAMS

The program level for international programs is down about $1.9 billion. The major change is the estimate for short-term export credit guarantees. We have simply not been able to use the full $5 billion authorized by the Congress for this program. Other export programs will be maintained near current levels.

FMHA BUDGET REQUEST

The Farmers Home Administration budget request includes $4 billion for farm operating loans and $471 million for rural development activities. The latter includes funding for water and sewer systems, community facilities and business and industrial development. Housing programs would be converted to vouchers.

REA

REA reflects continued proposals to convert Federal lending to private sector guarantees. We feel that the REA system is healthy enough to make this change.

SOIL CONSERVATION SERVICE

Funding for the Soil Conservation Service maintains conservation technical assistance and the Resource Conservation and Development Program. Water resource programs are funded at reduced levels. These proposals will permit the Soil Conservation Service to

meet its workload and to make an important contribution to our overall rural development effort.

CRP

We are requesting almost $1.9 billion for the Conservation Reserve Program. This will fund the 23 million acres already in the program and cover costs on additional acres which may be signed up this year.

Again this year, no funds are requested for the Agricultural Program or other ASCS conservation cost share programs.

FOREST SERVICE

Our budget proposal for the Forest Service provides for a timber sales level of 11.2 billion board feet in 1989. This level is consistent with the policy of offering a relatively steady volume of timber sales to accommodate the variation in year-to-year harvest levels. We are also proposing a new recreation initiative which includes a challenge cost-share program to fund specific recreation projects in conjunction with State and local governments and the private sector.

Full funding for the Payments to States Program is also provided. Funding for research and education programs is requested at about $1.1 billion, roughly $100 million below the 1988 level.

RESEARCH AND EXTENSION

Funding for the Agricultural Research Service is up $20 million with emphasis on the agricultural impacts on the ground water, the development of better testing methods for pesticides and residues in meats.

The budget also includes $11 million for construction of a new national seed storage laboratory.

The budgets for the Cooperative State Research Service and the Extension Service are reduced largely due to the renewal of proposals to cut or eliminate special grants. The budget does provide for increased competitive grants, increased funding for 1890 institutions, and $22 million for new funding for extension service initiatives in rural development, agricultural profitability, nutrition, and natural resources.

MARKETING AND INSPECTION

Marketing programs are budgeted at essentially the 1988 level. Low priority programs such as boll weevil, wholesale market development, and the Federal Seed Act are reduced or terminated.

Increased funding is provided for areas such as agricultural quarantine inspection and stepped up food safety inspection service testing for residues.

ECONOMICS AND STATISTICS

Economic and statistical programs are maintained at the 1988 level, with some increased funding to implement the Immigration Reform and Control Act of 1986.

FOOD ASSISTANCE PROGRAMS

Food assistance programs are budgeted at essentially the current law level. The request of over $21 billion for these programs represents a substantial commitment to assuring that food assistance is provided to need Americans.

DEPARTMENTAL MANAGEMENT

Some of our staff support activities are increased, especially the Office of the General Counsel and the Office of the Inspector General. The central fund for hazardous waste management is increased from $2 million to $10 million. We need to be sure that they meet our responsibilities, to deal with hazardous waste problems generated by USDA activities.

Mr. Chairman, we look forward to working with the Congress this year, and as the budget is considered, we urged that action be concluded on individual appropriation bills in time for transmittal to the President before the beginning of the next fiscal year. As a cabinet officer with a responsibility for over 250 programs and over 100,000 employees, I am very much aware of the problems created for our program managers when funding decisions are not made until long after the fiscal year has begun.

I am also very mindful of the need to give the Congress and the President time to review appropriation bills and have a fair chance to express their views on these matters. The presentation of a gigantic, governmentwide continuing resolution in the waning days of the session is not the way to do business.

Mr. Chairman, that concludes my remarks and I will be happy to try to respond to your questions.

[The prepared statement of Secretary Lyng follows:]

STATEMENT OF RICHARD E. LYNG, SECRETARY,
UNITED STATES DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the Committee, it is a privilege to appear before you once again to discuss the budget of the U.S. Department of Agriculture for FY 1989.

I come before you this year with a more optimistic outlook for the farm sector as well as for the budget than in previous years.

Over the past year, we have had some success in dealing with farm problems as well as with the Federal deficit. The budget summit process achieved $78 billion in budget savings over the FY 1988-1989 period, with agriculture contributing its fair share of the reductions. The job, however, is not finished. More hard work will be needed to keep the deficit coming down in future years.

The budget we are submitting this year complies with the budget summit agreement. It is a fiscally responsible budget, but at the same time it provides the necessary funding for key Department programs so that we can adequately serve our farm and rural constituency.

In developing the President's Budget, the Department was fully involved with respect to the proposals related to agriculture. As with the budgets of the last few years we have had to set priorities and make difficult choices in funding programs. For example, programs that provide special grants or earmarked funds for State and local projects and activities are proposed for reduction or elimination. On the other hand, we are proposing new initiatives in some selected areas to address critical national needs. The budget will continue movement toward a more market-oriented farm economy, while achieving the overall spending reductions required by the recent bi-partisan budget agreement.

Before turning to the specific USDA budget proposals, I would first like to discuss some positive developments in the farm sector and some challenges that lie ahead.

Current Agricultural Situation and Outlook

The agricultural economy has begun to stabilize, and in some significant respects, to recover from the unfavorable trends of recent years. This progress is due in large measure to provisions of the Food Security Act of 1985. That legislation is providing for a fundamental departure from past policy by gradually moving American agriculture to a more sustainable market-oriented basis. Further improvements in the farm economy can be expected as price supports for program crops adjust to market-clearing levels, and the United States regains its export competitiveness.

Evidence of recent progress can be found in a number of important indicators. Cash farm income was a record $57 billion in 1987 and is expected to remain high at $50-55 billion in 1988. High Government support payments, however, are responsible for a larger portion of this income than we would have preferred.

Exports are improving. More competitive prices as a result of the provisions of the Food Security Act of 1985, reduction in the exchange value of the dollar, expanded export programs, and other factors are increasing the U.S. share of the world

agricultural export market. U.S. export volume increased to 129 million metric tons in FY 1987, up from just under 110 million tons in 1986, and exports are expected to climb again in FY 1988 to 143 million tons. Export values have shown a similar increase and are now projected to reach $32.5 billion in FY 1988, up nearly 24 percent over the past two years. Equally important, our strengthened export performance is broad-based with both bulk commodities and high-value products registering gains.

Declining surplus stocks as a result of expanded demand and restricted production due to large acreage reduction programs are contributing to stronger market price prospects for many commodities. Sustained growth in demand should permit a continued gradual decline in dependence on Government involvement, consistent with the policy direction of the 1985 Act.

Farm debt levels--a major source of farm financial stress--are being reduced. In addition farm asset values are increasing after several years of decline. Land values are rising in most areas of the country, following a 5-year slide. Nationally, farm land values rose 3 to 5 percent in 1987. In Illinois, Iowa, Kansas, and Nebraska, they are estimated to have increased from 8 to 10 percent last year. While land values will remain sensitive to changes in farm income, interest rate and other factors, we are projecting further increases in land values in 1988.

As a whole the farm sector has begun to regain firmer financial ground. The number of farm bank failures declined last year. Also, the Agricultural Credit Act of 1987, which provides for financial assistance and administrative streamlining of the Farm Credit System, should do much to assure continued availability of credit at reasonable rates for creditworthy farm borrowers.

The Farmers Home Administration will continue working with its troubled borrowers. Regulations to reinstate continuation loans, mandated in the Supplemental Appropriations Act for 1987, will soon be issued. Further, the Agency will continue to assist its borrowers through such servicing actions as subordinations, reschedulings and deferrals.

In addition, both the Farmers Home Administration (FmHA) and the Farm Credit System will be implementing new and substantial servicing benefits authorized in the Agricultural Credit Act of 1987. These benefits include the writing-down of loan principal for delinquent borrowers, where such action is in the best interest of the Government.

Trade Negotiations and Agricultural Reform

While we are all heartened by these improvements in the farm sector, we also recognize that world agricultural production and trade continue to face serious problems requiring long-term solutions. These problems result from Government policies which create incentives for uneconomic production and curtail demand. For this reason, we will be concentrating our efforts this year to achieve a successful outcome to the Uruguay Round of multilateral trade negotiations, which offers an unprecedented opportunity for fundamental reform in world agricultural policies.

Reaching a consensus among the various negotiating parties will not be easy, but agreement is possible if we continue to focus

our attention on the long-term benefits of a more open, flexible, and equitable system of international trade. These benefits include expanded opportunities for agricultural growth and trade and enhanced world food security.

With this background on the general state of agriculture, I would now like to discuss the FY 1989 budget, beginning with farm program spending.

Budget Proposals for FY 1989

Farm Price and Income Support

Spending for Commodity Credit Corporation (CCC) price and income support activities increased dramatically during the 1980s, setting a record of $25.8 billion for FY 1986. Much of this increase can be attributed to high price support rates for the major commodities which encouraged production well in excess of demand. The result was a costly build-up of surplus stocks.

This upward trend in the annual rate of CCC spending has now been reversed. Improvements in the farm economy I have already discussed are resulting in reduced levels of CCC net outlays. Moreover, further reductions are projected as provisions of the Food Security Act of 1985 are gradually implemented, exports strengthen and prices reflect market conditions.

From the record FY 1986 level, CCC net outlays fell to $22.4 billion in FY 1987, and we now project CCC spending at $17.7 billion for FY 1988. The decline of $4.8 billion from the FY 1987 level is principally due to the lower supply levels and higher usage for the major price supported crops. For FY 1989, outlays are currently projected to decline further to $17.1 billion. In spite of these improvements, CCC spending is still high by historical standards.

The FY 1988 and FY 1989 estimates for the farm programs also include savings achieved in last year's budget reconciliation process. Savings of $2.5 billion were achieved from the Gramm-Rudman baseline projections developed last August. Additional savings have resulted from improved supply and demand conditions.

Since CCC outlays are inherently difficult to predict, these outlay estimates will most likely change as new economic and crop information becomes available. However, it is expected that CCC outlays will continue the gradual decline in future years as the price and income support programs become more market-oriented.

Due to the high level of outlays in recent years, CCC has had to suspend operations on five occasions because its borrowing authority with the Treasury was exhausted. In 1987, Congress responded to this situation by increasing the ceiling on CCC borrowing authority to $30 billion and authorizing a current indefinite appropriation. However, the current, indefinite appropriation has not been provided for CCC funding in FY 1988.

This year, we are asking that Congress provide the current, indefinite appropriation which has now been authorized. With such an appropriation, we can eliminate the possibility of shut-downs of CCC in FY 1989 and beyond. Current projections indicate that CCC will have adequate funding for the remainder of this fiscal year.

Other than a new proposal to reform the sugar program, the Administration is not proposing additional legislative changes in farm programs in the President's Budget. The Administration will seek changes in the sugar program to make it more market-oriented and thus consistent with agricultural policy for other crops.

Export Market Development

In the international area, our FY 1989 budget proposals are designed to build on recent progress in restoring our export competitiveness and regaining markets overseas. They also seek to continue this progress into the future through long-term market development.

For CCC export credit programs, we are proposing that $3.0 billion of short-term guarantees and $500 million of intermediate-term guarantees be made available during FY 1989. While this represents a reduction in short-term guarantees from the level mandated in the Food Security Act of 1985, our proposal more accurately reflects program participation in recent years and should be adequate to achieve our export marketing objectives. Moreover, we will be continuing other commercial export programs in 1989, such as the Export Enhancement Program, which will contribute greatly to our ability to compete in international markets.

Market development activities will be boosted in FY 1989 by a substantial increase in the Targeted Export Assistance (TEA) program. While the level of TEA is $110 million in FY 1988, our budget includes $295 million in FY 1989 for this program, which is proving very helpful in supporting export promotion activities for a broad range of agricultural products. For the Foreign Agricultural Service and the General Sales Manager's Office, we are requesting funding relatively unchanged from the FY 1988 levels.

The P.L. 480 program also continues to serve our long-term market development objectives, while providing valuable commodity assistance and economic development support to developing countries throughout the world. We are proposing a program level of $1.4 billion for P.L. 480 for FY 1989, which should provide for commodity shipments of about 6.7 million metric tons. This represents a small reduction from the tonnage level currently estimated for FY 1988, but would remain well above the annual tonnage levels of the early 1980s.

Small Community and Rural Development

The budget proposes continued funding for rural development programs and increased funding for guaranteed farmer program lending. Increased use of private sector financing is also proposed for the costly direct lending programs of the Rural Electrification Administration (REA). Funding for crop insurance will provide for expanded protection against disaster losses. I would like to focus some additional comments on farm credit and rural development initiatives.

Farm Credit. The farm credit budget for FmHA continues the shift from direct loans to guaranteed loans established in the Food Security Act of 1985. Guaranteed lending is projected to increase from about $1.6 billion in FY 1987 to $3.6 billion in

FY 1989. Total direct and guaranteed lending will increase from $3.1 billion in FY 1987 to $4.2 billion in FY 1989.

FmHA will continue efforts to assist its borrowers through such servicing actions as subordinations, reschedulings, and deferrals. In addition, as provided in the Agricultural Credit Act of 1987, the agency will restructure debt--write down debt to the current value of collateral if necessary--where the expected payments from the farmer after restructuring exceed proceeds expected from loan acceleration and foreclosure.

The budget provides for expanded use of operating loans guaranteed by FmHA and maintains the agency role of lender of last resort with continued direct operating and emergency loan programs. A limited guaranteed loan program is extended for real estate loans, and the interest buy-down program authorized in the 1985 Farm Bill has been revised and extended by the Agricultural Credit Act of 1987.

Rural Development Initiatives

The structural changes occurring in agriculture make it necessary for many rural areas to make efforts to diversify their economies and become less dependent on agriculture as a primary source of employment. To assist in these efforts we have included funds in the budget for continuing FmHA's Rural Development programs including $250 million in direct loans and $75 million in grants for water and waste disposal projects, $50 million in direct loans for other community facilities, and $96 million for business and industrial loan guarantees.

The Rural Development Initiative announced by the Department last year included a change in the Business and Industrial Loan Guarantee Program which will target assistance to rural areas adjusting to changes in agriculture. The program is now available to small scale, family-sized enterprises in areas in which farmers are attemtping to make the transition to non-farm employment. The change improves the targeting of the program and increases the level of assistance without additional expenditures.

In addition, the Extension Service is working with State and local officials to focus on rural development issues. Rural Enterprise teams have been organized to assist in business development, job training, and financial management needs. A joint Extension Service and National Agricultural Library Information Clearing House has been established to provide local officials with up-to-date information about Federal programs.

Also, as part of our rural development efforts, the budget includes funding for the Resources Conservation and Development Program in the Soil Conservation Service (SCS). SCS provides planning, technical and financial assistance to multi-county areas where there are opportunities to diversify their economies by developing their natural and economic resources.

The budget again includes the Administration's proposal to replace the very costly FmHA housing loan and grant programs with a housing voucher system that would allow recipients more flexibility in obtaining adequate housing. A demonstration of rural housing vouchers was authorized in the recently enacted Housing Act, but it was determined that additional appropriations action would be required to implement the program in 1988. We are

now reviewing alternatives to see what additional action we may wish to recommend to the Congress in order to begin this demonstration program this year.

The budget also includes reforms to the Rural Electrification Administration (REA) lending programs. Nearly all REA borrowers can borrow in private credit markets. The budget includes a proposal for REA borrowers to utilize less costly programs of partial REA guarantees of private financing to meet their needs. The use of partial guarantees will have very little impact on the rates charged customers. With the ever increasing pressure to reduce the Federal deficit, reforms to the REA programs will make room for higher agricultural spending priorities.

The budget also proposes to modify and extend for one year the opportunity for borrowers to prepay, without premium, existing loans made by the Federal Financing Bank and guaranteed by REA provided other reforms are also enacted. REA would partially guarantee private sector financing for the prepayment of loans. Rural Telephone Bank borrowers would be able to prepay, without premium, and Revolving Fund borrowers would be able to prepay at a discount provided they no longer return to the bank or REA for further assistance.

Soil and Water Conservation

The total budget level for the soil and water conservation programs is requested at about $2.5 billion -- nearly triple the level in FY 1985. The FY 1989 budget reflects the funding that is required to implement the provisions authorized in the conservation title of the Food Security Act of 1985. In addition to increasing the program level for the Soil Conservation Service technical assistance, there are proposals to reform, restructure and fund the watershed programs. The Resource Conservation and Development Program will be continued and will contribute to achieving important rural development goals. Appropriations for use by the Commodity Credit Corporation during the fourth year of the Conservation Reserve Program (CRP) are requested at nearly $1.9 billion.

Again this year, because of fiscal policy reasons, the budget proposes termination of a number of other conservation financial assistance programs.

The budget requests funds for the Soil Conservation Service to service requests from farmers. Many of these requests are associated with the CRP, sodbuster, swampbuster and conservation compliance. The budget also includes a reduced funding request for merging the SCS water resource programs. There are significant opportunities to make this program more efficient and meaningful in addressing current problems. There are legislative proposals for requiring non-Federal cost sharing of flood protection projects, as already done for Army Corps of Engineers projects, and for assuring that these projects have substantial agricultural benefits. Also, there are plans to be more selective in making planning and construction start decisions, including eliminating the price and income support incentives to construct projects. We hope the Administration's recommendation for funding these programs will lead to a positive dialogue with Congress in Both the substantive and appropriations committees.

Concerning the Conservation Reserve Program, during the first five signups for the program we have enrolled nearly 23 million acres of highly erodible cropland. Soil erosion savings from this land are over 20 tons per acre. The sixth signup was held from February 1 to 19. The bids are being analyzed and an announcement of the accepted bids should be made by mid-March. This announcement is about two weeks later than usual because the county ASCS committees have the responsibility of assuring that rental rates under the new CRP contracts are not in excess of the prevailing local rental rates for an acre of comparable land as required in the 1988 Appropriations Act.

Forest Service

The Forest Service budget provides for a timber sales level of 11.2 Billion Board Feet, which is consistent with the policy of offering a relatively steady volume of timber sales to accommodate the variation in year-to-year harvest levels. The budget also provides for a new recreation initiative for the National Forest System. This initiative includes the use of $3 million of recreation funding for a challenge cost-share program called "Join Us." The program will match Federal resources devoted to specific recreation projects with cash, material, and services contributed by State and local governments and by the private sector.

No new funds are requested for land purchases, and in keeping with the budget summit agreement, the Administration is proposing full funding for the Payments to States program. When firefighting costs, an uncontrollable item, are excluded, total 1989 Forest Service funding is $2,276.1 million, a 4 percent decrease from 1988.

Research and Extension

Our proposals for research will provide for the development of the technological base our agricultural producers need to remain competitive in a changing world marketplace. We have carefully structured these proposals to provide for long-term needs, to address the immediate issues facing producers today, and to include a strong component of technology transfer to make certain that the research we produce reaches those who can implement it.

For the Agricultural Research Service we are requesting an increase of $20 million for the research program. The increase will fund research to address groundwater quality as well as food safety concerns related to pesticide and bacterial contamination of food products.

Our partnership with the Land-Grant universities receives continued strong support in the budget. In addition to continued funding for the basic Hatch Act formula at the 1988 level, we are proposing an increase for the competitive grants program. We plan to increase funds for most of the major research areas in the program and initiate a new program to address concerns of the effects of ozone depletion on major crop plants. We will encourage increased minority participation in the agricultural sector through enhanced research funding at the 1890 institutions and continuation of our 1890 higher education grants. The

additional research will support our rural development and small-scale farm needs.

The Extension Service, working in close coordination with the States, producers, commodity organizations and other interested parties, has recently developed a set of national priority initiatives to re-focus its programs. We are proposing a shift from the general formula to fund increased activity in agricultural profitability and in rural development. We will also be instituting two new information centers at the National Agricultural Library to enhance our ability to transfer new technologies and disseminate rural development information.

Economics and Statistics

Maintenance of competent programs for the collection of agricultural statistics and for economic analysis and research continues to be a high priority. We are proposing modest increases for surveys and analyses of seasonal agricultural labor to comply with the requirements of the Immigration Reform and Control Act of 1986 and other priority initiatives.

Marketing and Inspection

Consistent with the budget summit agreement, no new user fee proposals are proposed in FY 1989. The budget continues efforts to terminate or phase out low priority programs while maintaining or expanding critical programs in the marketing and inspection area. Funding for the Animal and Plant Health Inspection Service will be reduced by $34.5 million reflecting cuts in the brucellosis, pseudorabies, boll weevil and animal damage control programs. However, the Department will continue to strengthen its front-line defense against the introduction of foreign plant pests and animal diseases. An increase of $6.4 million is being proposed for the agricultural quarantine inspection program to provide additional staff at selected airports and to implement new airport baggage screening methods. Should a foreign pest or disease penetrate this defense, the budget also provides $5.0 million to control emergency outbreaks and an increase of $2.5 million for the pest detection and animal disease detection programs to ensure that the outbreak is caught early and eradicated quickly. A $13.7 million increase for the Food Safety and Inspection Service will provide for expanded biological testing of meat and poultry products for chemical and antibiotic residues.

Domestic Food Assistance Programs

The budget for the Food and Consumer Services programs reflects program activity based on current law. In the Food Stamp Program, the scheduled increase in the Thrifty Food Plan will result in an increase in benefits for all households. Funding for the Child Nutrition Programs reflects projected increases in per meal reimbursement rates and program participation. For the Supplemental Feeding Programs we are requesting funds to support at least 3.8 million women, infants, and children per month and about 80 thousand elderly persons per month.

Departmental Management

The budget for Departmental Administration staff offices includes increases for the Inspector General for increased program operations, for the Office of the General Counsel for a major automation project and for other centralized services provided by Departmental Administration. Also, there is an increase for the central fund used to finance agency operations to identify and cleanup hazardous waste as required by law. We believe these increases are of high priority and are needed to carry out the work of the Department. The funds requested represent a very small proportion of the overall Department request.

Mr. Chairman, this concludes my formal statement. In many respects this year's budget is different from those of prior years. I believe our proposed budget addresses the priority needs of American agriculture in view of our pressing national need to reduce the deficit. I urge the Congress to consider our proposals carefully during your deliberations. I will be glad to respond to any questions you may have.

The CHAIRMAN. Thank you very much.

Mr. Secretary, your prepared statement indicates that you come before the committee with an optimistic outlook. I think most members of the committee would agree that prospects in agriculture do look a little brighter than they were when we were having this same hearing a year ago.

But as optimistic as you might be, there is a more troubling reality. Here we are, the most powerful, wealthiest nation on Earth, the nation with the greatest agricultural productivity ever in history, the envy literally of every other nation in the world in our ability to produce food, the only major power in the world able to feed itself and all its people. And yet, we have rampant hunger, poverty and homelessness, not only in urban areas but in rural areas. In fact, a disproportionate share in rural areas.

We see the images of the poor and the hungry on our TV screens and in the newspapers. A powerful TV program on ABC last night was just one example.

I went and spent a day, not in a formal hearing, but just to walk around the South Bronx of New York City. Again, a wealthy city, but it has a schizophrenic idea of how to take care of their homeless. This is an area where the homeless seem to be just sort of shunted and, in many ways ignored. Blocks of homeless where there were almost as many people in a block or two as we have in the average sized community in my own State, all homeless.

It emphasized what we know to be the fact in this country, that 20 percent of all American children are poor. One-fifth of our children are poor. This is the sort of thing that we would see in a Third World nation.

For millions of additional Americans, poverty is no more than two or three paychecks away—along with that poverty comes hunger. So I do not think that we have the right, whether we are Republicans, Democrats, conservatives, liberals, or anything else, to turn our back on these hungry. We have millions of Americans who stand in lines, sometimes for hours, just to get a bag of surplus commodities.

That is something that we have to accept as a reality. But we do not have to accept it as a finality in this country.

What is the President's response?

We have eliminated funding for the distribution of surplus commodities.

The President's budget cuts $36 million from the Department's only program specifically aimed at teaching low-income families how to purchase and prepare nutritionally adequate meals.

These are concerns of mine. I said, during my tour through the Bronx, that in Vermont we talked about the poor being the people at the end of the road. Of course, there there is no end of the road. That is the case in many other areas.

I am disturbed by the Department's lack of real action on rural development.

Quoting from your own budget summary, "The Department would place increased emphasis on assisting rural areas diversify their economies." Coming from a State that is predominantly rural, that really appealed to me. I thought it was a great idea. I then read the fine print. It says "Program levels for small commu-

nity and rural development would total $8 billion, a reduction of $2.6 billion from the 1988 level." Back in my State, when you reduce it that much, that is not increased emphasis. That is increased cuts.

We have received mixed signals on conservation programs. The farmers have got to meet new conservation compliance requirements, but you are proposing terminating the agricultural conservation and water bank programs.

Let me say, on a more positive area from your point of view, I compliment you for standing by the budget summit agreement. When I first picked up the President's budget last year I saw 10 percent target price cuts. We made an agreement—you referred to the huge package of legislation that came through at the last minute, that you do not like that. I do not either. I was one of the ones who also had to sit here around the clock, wearing a hat both as a member of the Appropriations Committee and as chairman of this committee. Senator Lugar in his capacity, both in this committee and other significant committees, we went through it too, and none of us like that.

But we did make an agreement at the end, and I would compliment you in your budget request. You stood by it. After all, we reduced farm program spending by $2.5 billion over 2 years, the first time in the last 7 years that a real reduction has been made. It was a bipartisan agreement. Senator Lugar and I agreed on that and the administration did also.

But even more important than the short-term legislation is the longer term decline in farm program spending as a result of the 1985 farm bill. I think that is positive and I thank everybody, all the parties involved that have kept their word.

But the 1985 farm bill still is not working for all farmers. I hope you do not feel that I am being at all parochial when I say, for example, the dairy farmers in the Northeast have some problems. But there are other parts, and I see heads nodding around this table, the Senator from Iowa is nodding. I know he has problems in his State.

Estimates of farm spending for fiscal year 1988 have fallen by $7.3 billion since last March. The prospects for many farmers, not all, have improved and I am encouraged by these trends.

Farm programs have contributed substantially to deficit reduction in the past year and I would hope that you would emphasize that at Cabinet meetings, and point out to the other Cabinet Secretaries that we have made cuts. But we also want to be careful about further cuts, for that could undermine the optimism that we see for the farm sector.

I stated, as I said earlier in this meeting and in Geneva 2 weeks ago, you are one of the finest Secretaries of Agriculture that I have dealt with since I have been in the Senate, and I really mean it.

I think that in most areas, you and I agree far more than we disagree. None of us around this table can wave a magic wand. If we could just absolutely draw, without any consideration of political considerations, geographical considerations, a perfect farm bill or perfect farm policy. We cannot predict the weather, we cannot predict other trends. But we are working a lot closer at trying to draw the best.

So let me ask you to join me in a joint effort to extend the benefits of both the farm and economic recovery to those who have been left behind—whether they are a rancher facing foreclosure in Nebraska, a farmer in Iowa, a dairy farmer in Vermont, or the hungry and homeless that we see on the streets of this city—and at the end of country roads throughout our Nation.

That is a longer opening statement than I had intended to make. There is practically no budget that will come before the Congress where policy is set so much by the budget as in yours, and as extremely important ones.

I will yield to my good friend, Dick Lugar. I might say also I am handing out accolades that will probably ruin the political chances of everybody who gets them here, that the progress we have made in the past 14 months in this committee would have been impossible without—not only the wisdom but the integrity and the tenacity of—the good Senator from Indiana.

[The prepared statement of Senator Leahy follows:]

Statement of the Honorable Patrick Leahy, Chairman
Senate Committee on Agriculture, Nutrition, and Forestry
Hearing on the Department of Agriculture's
Budget Request for Fiscal Year 1989
March 22, 1988

Mr. Secretary, your prepared statement indicates that you come before this Committee with an optimistic outlook. Most of us here would agree that prospects in agriculture do look a little brighter.

However, this optimism hides a more troubling reality--hunger, poverty and homelessness have reached disturbing proportions in America.

We see images of the poor and the hungry on our TV screens and in the newspapers.

There are over 12 million poor children in America. 32 million Americans live in poverty--20 percent of all American children are poor.

For millions of additional Americans, poverty is no more than two or three paychecks away--and where there is poverty there is hunger.

The conscience of America must be judged by how it responds. America must not turn its back on the millions of Americans that stand in lines, sometimes for hours on end, to get a bag of surplus commodities.

What is the President's response?

The President's budget eliminates funding for the distribution of surplus commodities to America's hungry.

The President's budget cuts $36 million from the Department's only program specifically aimed at teaching low-income families how to purchase and prepare nutritionally adequate meals.

I'm also disturbed by the Department's lack of real action on rural development. The Administration talks a good game.

Quoting from your own budget summary, "The Department would place increased emphasis on assisting rural areas diversify their economies." But when I read the fine print I see that, "Program levels for small community and rural development would total $8.0 billion, a reduction of $2.6 billion from the 1988 level." I'm not sure how you compute it, Mr. Secretary, but in Vermont a $2.6 billion reduction does not translate into 'increased emphasis.'

You are also sending mixed messages on conservation programs. The Department is asking farmers to meet new conservation compliance requirements while at the same time terminating the agricultural conservation and water bank programs.

But finally, Mr. Secretary, I would like to compliment you for standing by the Budget Summit agreement. I was apprehensive when I picked up the President's budget. Last year I saw 10 percent target price cuts. I didn't

know what to expect this year. But I am pleased that the Administration stood by its agreement.

The Reconciliation package that we developed together last year reduced farm program spending by $2.5 billion over two years.

But more important than the short-term legislation is the longer term decline in farm program spending as a result of the 1985 Farm bill. The bill isn't working for all farmers. Certainly dairy farmers in the Northeast have some problems with it, as you and I have discussed in the past few weeks. But estimates of farm spending for fiscal year 1988 have fallen by $7.3 billion since last March while the prospects for many farmers have improved.

I am encouraged by these trends. Farm programs have contributed substantially to deficit reduction in the past year. But, further cuts could undermine the optimism that we see for the farm sector.

Mr. Secretary, this is the last budget that you will present to the Congress.

When we were in Geneva two weeks ago, I stated--and I will state here again today--that you are one of the finest Secretaries of Agriculture that I have dealt with since I have been in the Senate.

I would like to ask you to join me--in this the last year of your term--in a joint effort to extend the benefits of both the farm and economic recovery to those who have been left behind--whether they are a rancher facing foreclosure in Nebraska, the 40 head dairy farmer in Vermont--or the hungry and homeless that we see on the streets of this city--and at the end of country roads throughout our Nation.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. I just appreciate the spirit that you bring to this meeting, and to the committee. You contribute to the committee very much and I think our ability to work with the Secretary is facilitated, in large part, by your good spirit, your good generosity, including all of us.

Let me just say, Secretary Lyng, that I am pleased that the summit conference was observed. Likewise, I am pleased that the Farm Act of 1985 continues to be observed in your proposals, as well as in your budget ideas. I think it is important to say that most farmers, not all, but most farmers will be pleased by the thought that, in addition to action that was taken by reconciliation, most of the reduction—at least half of it—with the CCC stocks comes from supply and demand questions.

I suppose most farmers pray for the day, as all of this committee does, that supply and demand functions, market functions, will lead to a very substantial reduction of these outlays. There is overwhelming sentiment in rural America that this safety net is required for maintenance of farm income through a terrible transition in most of our States.

And yet, also a feeling that at some point farming must find an equilibrium with the rest of the economy. We try to provide a 5-year period of time, at least, in this act in which at least a part of that transition is occurring. Apparently it is occurring, given the figures you have given us this morning.

Let me just say, and we will get into questions later on, that I appreciate your emphasis on other aspects of agriculture, in conservation, the nutrition programs that the chairman has mentioned. This committee and your Department cover a lot of people, producers and consumers as well as your part of the Government and the budget prospects of agriculture play an important part in this.

I just perceive that the extent that the amounts of money in your budget continue to decline. The whole budget is much less vulnerable. It appears to me that over the course of time, if the agriculture budget had continued to grow, albeit if or compassionate and humanitarian as well as economic reasons, that this would be difficult to bring off at a time in which the entire Federal Government is trying to reduce the deficit.

It appears that you are ahead of the game, that this budget is less vulnerable because of your thoughtfulness in submissions made. And likewise, as we have said, because of some market circumstances which we hope have been encouraged by the Farm Act of 1985.

Mr. Chairman, that concludes my comments and as we have questions, I will have a couple for the Secretary in due course.

The CHAIRMAN. Senator Pryor, did you wish to make an opening statement?

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. None, except I would like to echo, Mr. Secretary, what Senator Lugar and Chairman Leahy have said about your

service as Secretary of Agriculture. We have not, on every occasion, agreed on every point, but on most we have. I must say that on those areas where we have not agreed or agreed, you have been accessible to me and to all the members of this committee, to our staff, and that really is a great benefit to making this whole system work. I wanted to personally thank you for it.

Second, I would like to raise one issue, and I hate to because for many it is a nonissue in the respective States they represent. With me it is an issue with one PCA down in southeast Arkansas. I will not belabor this. I have talked to Senator Lugar about this and Senator Leahy's staff about this matter.

In the Farm Credit Act that we passed in December 1987, I think that we unintentionally did something and I do not know how we revisit it without opening up a whole can of worms. If I might cite a very small PCA down in southeast Arkansas, the Delta PCA. It has been in operation now about 50 years, and operated at a very low margin. They serve a very few individuals in that little area of our State.

But because of the legislation that we passed, this particular PCA was forced to send in 73 percent of their reserves. Most of the PCA's had to contribute, I think, around 28 percent, maybe 24 percent, some 30 percent. But a hit on a very small PCA, such as this one took, could be very devastating and actually could put them out of business.

In researching the law, we found that you have no flexibility, as the Secretary. We found that we have no flexibility, or options, as the committee. We find that OMB has no flexibility, no leeway, to look at this type thing. There are probably less than 20 of these PCA's around the country hit to this extent. This may be the largest hit of all.

I am simply mentioning this, Mr. Secretary, because I do not think we intended to do this. And if you have any advice, I am not asking for that advice today, but later on I would possibly like to talk to you personally, to see if you have a mechanism that you might explore, where we might examine this issue.

I do not know if Senator Lugar, in Indiana, has a situation like this or not, but it is going to be devastating to this one Production Credit Association because of their 73 percent, from out of their reserves, they have had to send into the Farm Credit System Financial Assistance Corporation.

Secretary LYNG. Senator Pryor, as you know, the law gives me some limited responsibilities in that area. One of them is to be a member of the Farm Credit Assistance Board. If, for the reason you have outlined, a PCA should have their assets reduced below a certain level, then they can request assistance from this Assistance Board. I will be glad to get some more information for you on that.

There is some flexibility given to both the Farm Credit Administration and the Assistance Board in matters of this kind. I confess I do not know them off the top of my head, and perhaps it is not the time to go into details anyhow, but we will be glad to follow up with you on that.

Senator PRYOR. Mr. Secretary, respectfully, I did not expect you to know the answer to it, nor all the details. I did, at this point, think it was timely to bring it to your attention.

By the way, if you call or communicate with our office, I do not now have an agriculture aide any longer. I am the aide, so just call me, Mr. Secretary, and thank you. [Laughter.]

The CHAIRMAN. I can see a request coming for additional funding from the distinguished Senator from Arkansas.

Senator LUGAR. This is a technical point, and I suspect the Senator knows this, but in the act the district banks have the flexibility to change the assessment among PCA levels for individual PCA's. When the Senator from Arkansas raised this point, I went back to the law to try and see what remedy was there.

So even short of the three-member board at the top, the district bank within that area may make adjustments, so long as the district as a whole pays its share. This offers a potential remedy within the Senator's region, if the district is so disposed.

Senator PRYOR. I appreciate your comment, Senator Lugar. I was not aware of that. Thank you.

The CHAIRMAN. I now yield to the other Senators for brief opening statements, because I know that is all they want to make. Senator Bond, Senator Harkin, and Senator Wilson.

STATEMENT OF HON. CHRISTOPHER S. "KIT" BOND, A U.S. SENATOR FROM MISSOURI

Senator BOND. Thank you, Mr. Chairman. I am very good at taking hints and I would like to submit a very eloquent, lengthy statement for the record.

The CHAIRMAN. Which we will eagerly read in the record, I want you to know.

Senator BOND. It is not April 1. It sounds like it.

I want to point out three areas, though, I want to call specifically to the Secretary's attention. First, conservation is a very important part of the Food Security Act of 1985. Conservation provisions include everything from sodbuster, swampbuster, CRP and conservation compliance.

In Missouri, we have had a great deal of concern by our farmers about the implementation of the programs, especially conservation compliance. With more than 5 million acres in our State in need of conservation plans, we are very much concerned that the technical assistance be available in order to meet the deadlines? The budget for fiscal year 1989 includes a $10 million increase for this technical assistance and I have asked whether that is, in fact, enough.

Second, along with my distinguished colleague from Arkansas, I am very concerned about improving research to develop technology to detect microbiological and chemical contaminants in our food supply. I would hope that the Department would work with the appropriation congressional committees to begin the transition.

Third, we have received many calls and many visits from our State regarding proposed cuts in research and extension. Specifically, the concerns are about cuts in the McIntire-Stennis Act, Special Grants and the Smith-Lever Formula. Furthermore, I was very surprised to see the Department proposing to eliminate funds for the Graduate Training Grants, or what is more commonly referred to as the National Needs Fellowship Program. We believe that funding for this essential program should, if possible, be increased.

Program. We believe that funding for this essential program should, if possible, be increased.

Thank you, Mr. Secretary.

[The prepared statement of Senator Bond follows:]

STATEMENT BY SENATOR CHRISTOPHER S. BOND (R-MO.)

I thank Chairman Leahy for scheduling this morning's hearing. The Department of Agriculture's budget is important to each and every one of us, whether we are from a farm state or not. All 240 million Americans are affected by USDA programs for agricultural commodities, research, education, soil and water conservation, rural development, food and consumer services and animal and plant inspection. In fact, a strong case can be made that the products, programs and services offered by the Department are actually worldwide in scope.

Once again, the enormous federal budget deficit is the most significant problem facing our nation. This problem has only worsened in recent years and efforts to address it have been largely unsuccessful. Late last year, the President's budget summit agreed on plans to reduce the deficit to $136 billion in FY88 and $100 billion in FY89. Although it is too soon to say if these targets can be reached, I believe Congress should stay within the guidelines adopted at the summit.

Slightly over a year ago, Secretary Lyng presented the Department's FY88 budget which maintained a high priority on research, foreign market development, farm support programs, pest and disease programs, conservation and food assitance. Although the budget included $4 billion in reduced outlays, signals began to point towards improvement in our agricultural economy. In calendar year 1987, net cash income reached record levels and farm debt decreased by over $50 billion from the 1983 peak. We saw strengthening in both commodity and livestock prices, significant reductions in surplus commodities and land values began to stabilize.

The FY89 USDA budget calls for a total of $64.5 billion, a reduction of $7 billion from the current 1988 estimate of $71.5 billion. According to the estimates for 1989, the Commodity Credit Corporation (CCC) alone has achieved savings of almost $5 billion since 1987. I am pleased to see that improved commodity prices and reduced storage and transportation outlays have led to significant reductions in government spending.

Mr. Chairman, there are several aspects of the USDA budget which I would like to see given further attention. First, the Food Security Act of 1985 includes a strong conservation title. Farm policy is now interlaced with conservation provisions including sodbuster, swampbuster, the CRP and conservation compliance.

In Missouri, our farmers are very concerned about the implementation of these programs, especially conservation compliance. With more than 5 million acres in need of conservation plans, I am concerned that technical assistence be available in order to meet the deadlines. The FY89 budget includes a $10 million increase for this technical assistance. I wonder if this is enough?

Secondly, I believe the Department should undertake efforts to restructure existing research and place increased emphasis on developing technology to detect microbiological and chemical contaminants in our food supply. I would hope that the Department

would work with the appropriate Congressional Committees to begin this transition.

Third, I have received many calls and letters regarding proposed cuts in research and extension. Specifically, many people are concerned about cuts in the McIntire-Stennis Act, Special Grants and the Smith-Lever Formula. Furthermore, I was very surprised to see the Department eliminated funds for the Graduate Training Grants or what is more commonly referred to as the National Needs Fellowship program. In my opinion, funding for this essential program should be increased.

In closing, I would like to say that I realize the current budget situation warrants actions which will not please everyone. The challenge is to remain fiscally responsible while maintaining a level of support consistent with our long-term goals and objectives.

Mr. Chairman, I am pleased to have the opportunity to discuss USDA's FY89 budget and would like to extend a warm welcome to my friend Secretary Lyng.

The CHAIRMAN. Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman. We are going to get to questions after?

The CHAIRMAN. Oh, yes.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. I will submit my prepared statement for the record and just welcome you, Mr. Secretary.

In my Subcommittee on Nutrition and Investigations, we had several hearings last year into some of the food programs. I just want you to know that your Department was most cooperative. Assistant Secretary Bode and the subcommittee worked very closely on a number of issues and I just appreciate that spirit of cooperation. We worked very well together.

We also really made some meaningful changes in some of these programs in order to reach more people. For example, we changed some of the competitive bidding aspects of WIC.

I do have some questions. I want to ask you about some recent happenings involving WIC competitive bidding in Texas and some of the other States. I also want to get into the bonus commodities. They are dwindling. The School Lunch Program bonus commodities have been capped at 1987 levels. I am told by the school lunch service people that they are expecting that school lunches may have to go up by as much as a dime. We know that historically when the prices go up, kids drop out and then the cost per unit goes up still more. I am concerned about. I do not know what we are going to do to make sure that commodities continue to reach the School Lunch Program.

Talking about the Food Stamp Program and the shift in who is using food stamps and how we are going to make sure that this shift is complemented by some changes in policies about who receives those food stamps.

Of all households now receiving food stamps 78 percent are headed by a woman. A tremendous shift for the last few years and 80 percent of all households receiving food stamps have children. Again, these are dramatic shifts in just the last few years.

I am not certain that the old ways of doing food stamps really can meet the needs of who these new people are who are getting in the Food Stamp Program. I will get into that later in my questions.

I appreciate your being here, Mr. Secretary, and the cooperation we received on my subcommittee last year, from the Department.

Thank you, Mr. Chairman.

[The prepared statement of Senator Harkin follows:]

OPENING STATEMENT OF SENATOR TOM HARKIN
MARCH 22, 1988

Thank you, Mr. Chairman. I want to compliment Chairman Leahy for his very able management and leadership of the Agriculture Committee and for arranging this hearing so that we might have the opportunity to review the Agriculture Department's 1989 budget and discuss these programs with Secretary Lyng.

During the past year the Nutrition and Investigations Subcommittee held a number of hearings on USDA programs. On most of these I think the Department made a significant effort to be cooperative and supportive of my Subcommittee's efforts. I want to commend the Department for that effort.

In summarizing my feelings regarding last year's hearings by the Nutrition Subcommittee, I would describe them in terms of lost opportunities, lost human dignity and lost economic potential. There are over 32 million people living in poverty in this great nation of ours. Our food stamp program helps less than 20 million. Little over half of our elderly poor receive food assistance. The WIC program reaches only 40% of eligible participants. Although not required by law, some states have long waiting lists for the WIC program. Some TEFAP commodities will no longer be available and the school lunch program has been terminated in a number of schools. I worry about preschool children who are not eligible for school lunches, but are the lowest priority in the WIC program. We don't reach 2/3 of these children through the WIC program.

We have seen a shift in who receives food stamp benefits. 78% of food stamp households are headed by women and over 80% of food stamps benefits go to households with children. This is the legacy we currently leave our children, our mothers, our elderly and our handicapped. It is one that must be condemned by all social and moral standards.

Although 20% of food stamp recipients work, they simply don't make enough to rise above poverty. Although poverty is the major determinant in cases involving hunger, poverty alone is not a sufficient cause for many Americans to receive food stamps.

So let's not be penny-wise and pound-foolish. It is a waste of our nation's resources to starve so many who ought and want to be productive citizens. We need to train low-income people not kick them off the food stamp program when they seek to develop job skills or to maintain productive employment. Nor should we withhold our resources from those unable to provide for themselves such as the disabled, the elderly and children. With regard to children, we will far outspend any perceived savings in the WIC program by increased medical bills within a year or so after an infant is born.

The CHAIRMAN. Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I am delighted to see you and I commend you on your statement and also on the job that you have been doing.

I, in looking over your statement, find much that I agree with. I think your concern about both deficits is commendable, not only the fiscal deficit but also the trade deficit. As you have noted, our exports are improving and in your statement, on page 4, you underscored that. I think that is significant. It is the one bright spot in our overall trade picture.

Our farm exports are up and showing one area of surplus. I am particularly pleased with the progress that we seem to be achieving in the Pacific RIM, where obviously I think there is an enormous potential for farm exports.

But having said that, and mindful of another recent appearance here by Tom Kay not so long ago, in which he declared that the Targeted Export Assistance Program was the start of the 1985 farm bill, the references that you have made in your prepared statement on page 4, I think, tend to confirm that it has been very useful, as do some statistics.

I have been looking at wine exports increasing 55 percent, avocado exports to Japan and France, up 100 percent. Cling peaches, a subject of some interest to you parochially, I suspect, increasing to Japan 176 percent and pistachios 200 percent. Kiwis too. These things are all very heartening.

The question that arises, does it make sense to cut back on that program under current law? Funding is supposed to rise to the level of $325 million in this year. Your budget, I think, comes close but not quite close enough. It is $295 million.

Are we not perhaps making an error in reducing the funding for a program that has enjoyed such signaled success and produced, as I have indicated and as I think you have too, one of the few bright spots in our overall trade picture?

Secretary LYNG. Senator, we are not really reducing it. Funding would be increased to a level greater than ever before. We would not increase it quite as much as the $325 million which is authorized.

Senator WILSON. Is it true that it is less than the law calls for?

Secretary LYNG. Yes, $295 million compared to $325 million. I honestly believe that is enough. I think this is a program in which you require matching funds. It has been a joint effort with these commodity groups. It has been a tremendously successful program in stimulating sales.

But I think the increase that we have asked for will be adequate and will be, in some ways, difficult for these industries to actually match.

Senator WILSON. Mr. Chairman, I do not have a formal statement, but I did want to commend the Secretary because I think he has overcome resistance from OMB, and rightly so. I think it has

paid very handsome dividends, not just for the commodity groups, either.

I would be interested, when we do get to questions, to your response. My impression is that it has helped not only farmers but virtually everybody in the entire chain of marketing and distribution; a whole lot people who have never seen a field or an orchard.

The CHAIRMAN. I would want the Senator from California to know that the kiwi, avocado, and cling peaches program in Vermont is working very, very well.

Senator WILSON. I told you it would.

The CHAIRMAN. The Senator from South Dakota, did you have an opening statement?

Senator DASCHLE. No.

[The prepared statement of Senator Karnes follows:]

Dave K. Karnes

STATEMENT BY SENATOR DAVID K. KARNES (R-NE)
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
TUESDAY MARCH 22, 1988

It is always a pleasure to welcome the Secretary of Agriculture when he is called to testify before the Senate Agriculture Committee. There is much to commend him on. The 1985 farm bill is working well. Indeed, there is a growing sense across the country that the corner has been turned for agriculture.

I am hopeful that such is the case. If conditions are, in fact, improving on a sustained basis and not simply as the result of federal expenditures or a weakened dollar overseas then you have much to be proud of.

LOAN AND STORAGE DECISION

There are, however, several issues that are budget related that I would like to discuss with the Secretary. The first is the Department's decision not to extend regular loans and Farmer Owned Reserve loans when they expire this year. Mr. Secretary, my concern over this issue dates back to February 2, When Senators Lugar, Boschwitz, Bond and I wrote a letter to you. In that letter we asked that 1985 and 1986 crop special producer loans be extended for another year.

Mr. Secretary, our concern, my concern, is that grain will pile up at some terminal facility and end up costing the government more than if it had been left in the farmer's hands. Farmers are willing to move stock if there is a true demand for that stock. They are not willing to simply move farmer held stocks into commercial storage.

Mr. Secretary, in a followup meeting with you on February 16, I asked that you consider five recommendations for mitigating any adverse impacts your announcments might have. I would like to reiterate those points briefly if I may: 1) reseal the 1984 corn reserve for another year, 2) pay farmers month by month as long as the grain remains on the farm, 3) move all substandard commercial grain first, 4) move older grain first, and 5) study rail car availability to ensure that rolling stock shortages don't crop up at the last moment.

In addition to these five recommendations, I have also proposed that farmers be allowed to keep unearned storage and interest in order to enhance their PIK and Roll opportunity. The

storage payment has already been made to the farmer. And if the crop is forfeited to the Goverment it will incur not only storage charges but also in and out charges at a commercial storage facility.

Mr. Secretary, I notice that in testimony you presented over on the House side you assured a colleague of mine, Virginia Smith, that "If we can't move the grain, the farmer will continue to draw storage payments." Mr. Secretary, I'm heartened to hear that. I wonder if you would care to elaborate on that point or on any other points that I raised?

CONSERVATION PLANS

I would also like to discuss with you briefly, if I may, the need for the Department of Agriculture to exercise a maximum degree of flexiblity as it moves toward implementing the conservation reserve requirements of the 1985 farm bill. In my state of Nebraska, questions about the conservation requirement dominate discussions I have had with farmers. What effort is the Department making to ensure that farmers are made aware of the full range of alternatives that are available to them to continue participating in price and income support programs?

The conservation requirement will be successful only for as long as a majority of farmers support it. It is essential that the Department do all that it can in letting farmers know of all the alternatives that are available to them so that they can begin making necessary adjustments now.

TRADE ISSUES

Mr. Secretary, first I want to thank you for inviting me to go with you to Geneva as a member of the Congressional delegation on GATT. The trip was an enlightening one for me and I think that it provided real evidence to the European Community of our joint resolve in reducing trade distorting barriers so that our farmers can enjoy the benefits of expanded world trade.

I would like to add my support in your efforts to secure another long term grain agreement with the Soviet Union. I believe that a bilateral agreement with this important trading partner lends a great deal of certainty to a volatile market. I am also hopeful that an annual minimum requirement for soybean purchases can be included in the agreement. Do you expect that such an agreement will be signed before the current agreement expires in September?

I am also supportive of your efforts and those of Ambassador Clayton Yeutter to open the Japanese market to beef and citrus exports. I believe that the Japanese consumer should be given a choice at the meat counter. Mr. Secretary, I know that you have been on the forefront in efforts to get the Japanese to lower or eliminate their beef and citrus quotas. What will you be doing to help the Trade Representative in this effort?

EDUCATION/EXTENSION

One final area of concern is adequate funding for research and extension. I would like to see funding made available for the National Initiative on water quality and management and alternative agricultural opportunities as proposed by the National Association of State Universities and Land-Grant Colleges. These requests are reasonable and needed. I hope that you can revisit your decision in these areas and that we can come to some sort of accommodation.

Thank you.

Senator WILSON. I understand kiwi-flavored milk products are up, as well.

The CHAIRMAN. Do not even say that. If Senator Boschwitz shows up, he will try it.

We will go to questions and go back through the round, the same way we did with opening statements.

Mr. Secretary, my question really relates to the areas I covered in my opening statement. We know that hunger is a national problem. I think that those who claim that there is not a national problem with hunger lose credibility. I do not think anybody around this table makes that complaint.

Your Department sent Congress a report last year that 15 million Americans receive TEFAP commodities, free commodities, each month. Certainly we have heard reports of people standing in long lines. I have talked to people who stood for hours in zero degree weather just to receive these commodities.

I think most of the States here in the United States are doing all they can to distribute these commodities.

TEFAP is running out of cheese, nonfat dry milk, and rice. Those are among the commodities that millions of these Americans rely on each month. You have the authority, under the Food and Agriculture Act of 1965, to purchase dairy products in the open market and distribute them to needy Americans. Are you going to use that authority?

Secretary LYNG. No, it is not our intention at all to do that. There is nothing in our budget that would authorize that kind of expenditure. I think that there is some misunderstanding about the need for it and the wisdom of that type of program.

Since 1965, the food assistance policy of the United States has changed rather materially. Up until about 1969, we depended very heavily upon commodity distribution programs to take care of the poverty caused hunger problems in the United States. In the early 1970's, the conversion of that policy was to move away from the distribution of commodities to a Food Stamp Program.

We now have a Food Stamp Program that is designed to take care of the needs of poor people, in terms of providing an adequate amount of food, based on their income. That is the basic food program of the United States.

When we acquired huge surpluses of agricultural commodities, early in this decade, the President decided that it would be wise to—rather than just store those—to institute a program called the Temporary Emergency Food Assistance Program [TEFAP]. The words "temporary" and "emergency" should be weighed rather heavily in considering that. It was based upon the fact that it was an augmentation of the food that was given to people primarily because we had it in storage in large surpluses.

The Food Security Act of 1985 had the effect of, through such programs as the Whole Herd Dairy Buy Out and our Export Enhancement programs and so on, of changing the supply and demand balance and the inventories. We now have gotten to the point where we do not have, in the United States, huge stocks of butter or cheese, or nonfat dry milk. We are closer to a balance of supply and demand in those items. The same thing is true with rice and some other commodities.

So it seems logical that if these programs were started because we had the large surpluses, and they were temporary and emergency in nature, that we simply stop the distribution at a time when we do not have those surpluses.

To move now into the purchase of these commodities for distribution would be moving back to the old system where we had a commodity distribution program as the major way of adequately providing for the needs of people. That is not our national policy at this point.

The CHAIRMAN. Then I would ask that maybe we ought to start reconsidering our national policy, and Senator Harkin could speak better to this issue as the chairman of the Nutrition Subcommittee. Our food stamp benefits provide a maximum of 81 cents per person per day for a family of four. You speak of TEFAP as temporary and emergency. The emergency still exists.

Since the time that TEFAP began, the number of homeless in this country has skyrocketed and people were aware of it, when those used to be the nightly shots on television. Then we move on to something else, but people are still there. We can see them when we walk around this city. We can see them when we walk around any city in the United States.

If there is not money in the budget, then perhaps we should be looking for money in the budget because there are hungry people out there. An increasing percentage of them are children, as I said earlier. I think that we have a very, very real problem. Food stamps do not begin to cover the problem, especially with the homeless in this country. At some point, we have to decide whether this just becomes a commodity redistribution program, a program to save the cost of storage, or whether it reflects what I think are moral obligations of all of us as Americans.

Let me note another subject in that same area. Your Department said last year that less than 50 percent of those eligible for the Women, Infants and Children Program were able to participate because of lack of funding. Will there be a request from the Department for increased funding for the WIC Program for this year?

Secretary LYNG. We are just maintaining the current level. I am not familiar with that statement, Mr. Chairman, but it is my understanding that about 60 percent of the WIC target population who are under the poverty level, expectant mothers and mothers of infants and children, are now participating in the WIC Program.

The CHAIRMAN. The reason I mention this, is that every study I have seen, including the American Pediatrics study, shows that when you increase the participation of pregnant women in WIC, you reduce the number of low birth weight babies and you reduce the number of those who have to stay in natal intensive care. It is something we should also look at.

We can always stand proud, as Americans, for our accomplishments in this country. We are tied for last place of the top 20 industrialized nations in terms of the infant mortality rates, something that again probably does not affect any of us around this table, or certainly in this room, but it affects an awful lot of others. It is not a matter of great pride when we say that we are tied for 20th place. No other nation is as wealthy as ours.

Your budget calls for a $36 million reduction in the Department's only program specifically aimed at teaching low income families how to purchase and prepare nutritionally adequate meals. Again, as I said earlier, you talk about 81 cents a day. Does it not have to also teach people how to stretch that 81 cents into nutritional meals?

Secretary LYNG. Mr. Chairman, I share your compassion for these——

The CHAIRMAN. I am sorry. That is 81 cents per person per meal.

Secretary LYNG. I commend you for your compassion and I share it in the concern for anyone out there who, because of their poverty or whatever reason, is suffering from hunger or malnutrition. I do believe that if we throw more money at the problem, it would be wise for us to really do an indepth analysis of some of the causes.

We have programs that are now costing about $20 billion, in total, annually. Our Food Stamp Program runs about $1 billion a month. I think it is a good program. It is a program that deserves to be studied to see if it is an adequate amount. There is a scheduled increase in the Thrifty Food Plan and that will result in increased benefits for all households. That is built in to our anticipated needs on the budget.

I am convinced that if there is hunger that exists, it is not caused by poverty alone. It is caused by a combination of factors. The homeless are not homeless simply because of poverty. Studies have indicated there are many reasons for that, some of which are not easily solved by just having more food stamps or more cash.

I think the administration would be delighted to participate with the Senate in efforts to improve the whole welfare system in the United States, and some steps have been made in that direction working with the States.

But in the meantime, I would like to defend the Food Stamp Program as being one that, in a massive way, does make poverty caused hunger in the United States virtually nonexistent.

The CHAIRMAN. Let me just respond to a couple of points. Poverty, by itself, does not cause all the homeless and I will accept that, in some cases mental illness does and so forth. But there are an awful lot of others, because of everything from plant closings to changes in the economic area, who are homeless.

I have talked to a lot of people who pulled a regular paycheck for 10 or 15 years, raised their families, paid their bills and suddenly, because of major changes in an area, in an industry or whatever, are now homeless and are hungry and have no idea where to go next.

They are out there. They are there in my own State of Vermont. They are there in the South Bronx. They are there, I am sure, in every other State represented around the room here.

We can study the causes of it, and I think that is good, and we should find ways to remove the cause of it.

But the fact is that they are there today and you have 20 percent of all American children who are poor. That does not mean they are all homeless, but they are poor. What control do they have over this? They are not the ones who did not go for the right job, or move to the right area, or what not. They had no control over it. But they are also hungry.

It becomes a grinding thing, where hunger adds to poverty, which adds to helplessness, which adds often to homelessness, and so on, and I think we have to at least give some kind of beacon of hope that there will be at least the basic necessities, food and shelter. I mean, these are the two basic necessities of life.

And then try to find ways to put people back in life. If it is a question of a handicap, mental or physical, then try to address that. Lack of education, lack of jobs, drug problems, whatever, address those. But there are a lot of people who have led normal, middle-class lives, never thought they would be hungry. They are out there. There are a lot of other people who were never given a chance to move out of a cycle, a generation of poverty.

I find it numbing almost, the numbers. I do not mean to give you a lecture. I know you share my concern, but I really feel that this is the worst time possible to say that we would do anything that might pull back, whether we are making studies or not, the safety net that may well be there, a safety net with a lot of big holes in it. That has got to be maintained.

If we can find a better way to do it, I am going to be the first one to applaud that. But in the meantime, we cannot cut back.

Secretary LYNG. I do not disagree with what you have said. In a general way, all of us should have concern for people in poverty or newly in poverty. But all I am suggesting is that in studying that, we should recognize that those children of those families are eligible for free school lunches, in addition to food stamps, in addition to free school breakfasts.

The CHAIRMAN. Some.

Secretary LYNG. Well, they are very popular now.

The CHAIRMAN. Remember, only 60 percent of those living in poverty even get food stamps in the first place.

Secretary LYNG. I would quarrel with that figure. We have had disagreements in the past on that. The definitions of poverty and the definitions of those receiving food stamps are something different. We would be glad to go into that in some detail, as I have with Senator Harkin.

The fact is that we have these massive programs and if they are not adequate, the facts should show that. We are not cutting these programs. The minor amount of change that we are making in the EFNET Program is because we have suggested in the past that there has been a major reduction in that program. We think there are better ways to accomplish it than that program, which I had a lot to do with starting 14 years ago.

Senator LUGAR. Thank you very much, Mr. Chairman.

Mr. Secretary, on January 29, you announced that the 1985 and 1986 crop loans would not be further extended. As background for my question, as I understand, the CCC presently has large stocks of corn stored in both commercial warehouses and in on-farm storage. There is a difference to the cost of the Government in these types of storage.

The commercial storage costs on an average, as I understand it, is 35 to 40 cents a bushel. Now on-farm storage costs about 26 or 25 cents per bushel.

It would appear that about 750 million bushels will come from commercial storage or go to commercial storage where the costs

are higher to the taxpayer. I do not know whether you have reconsidered this. We have raised the question, some of us, with you.

It appears to us that the corn is going to be stored one place or another and that, all things considered, it would be of greater benefit to the farmers to have the storage costs paid to them, and it would be of greater benefit to the taxpayers for that to occur. And that the bias, at least, of your program, is to favor the large commercial storage people.

That may or may not be the intent, but I would like for you to analyze really why you are moving in this direction and whether you have given any consideration to our plea for the farmer and for the fees to him to store this corn?

Secretary LYNG. Yes, Senator we have and are taking a look at that in corn. We have no intentions of moving corn out of farm storage simply to store it in commercial storage facilities. There will still be lots of corn left in farm storage. We have not made a decision on the 1984 crop under the Farm Owned Reserve. We are reviewing the whole thing.

I do not think we have any kind of a fundamental disagreement with what you have said in terms of keeping that grain on the farm. But we do want it to be in a location where it can be accessible to the market. Once you get loans into the Farmer Owned Reserve on long term, then it is not very available to the market. With our export sales continuing to expand, much of what we were thinking about is having enough corn and wheat in proper positions to satisfy that export demand.

Beyond that, we have no interest in creating a bias there. We will be continuing to take a look at that before we make our final announcement on corn.

Senator LUGAR. I appreciate that. I think all of us want the corn to be available for export. Certainly I do not want that to be inhibited a moment. It just appeared to me, to the extent that you are able to mitigate the overall policy so that the maximum amount is onfarm and of benefit to farmers, as opposed to the higher cost to the commercial storage people, I am certain I would feel more comfortable with that. I suspect many of us would.

Secretary LYNG. Yes, I should point out, I think, one of the reasons we pay more to commercial storage is that they take on some additional responsibilities that farm storage does not have, and it is usually a more expensive type of operation.

Senator LUGAR. What additionally do they do?

Secretary LYNG. It has to do with having responsibility for the grade and the weight. If there is a shrinkage that takes place, the storage facility has that responsibility.

Senator DASCHLE. Dick, would you yield on that for a second?

Senator LUGAR. Go ahead.

Senator DASCHLE. I would just like to ask. Farmers are docked, are they not, for any degradation in grade? And if they are not docked, do they not have to have the same—do they not shoulder the same responsibility, Dick?

Secretary LYNG. Yes, but it is still a little bit less, Senator, as I understand it because the farmer puts it in and maintains it and no one really considers the shrinkage. Whereas the farmer expects

the normal shrinkage in grain that takes place. But if he puts it into commercial storage, he does not have to take that risk.

Senator DASCHLE. I will follow this on my own time, but I will be pursuing that a little bit more.

Senator LUGAR. Let me conclude by saying, Mr. Secretary, I understand the point you are making about the additional responsibilities. But our analysis says that perhaps there is 3 or 4 cents more cost for the bonding and these special services which only goes to part of the differential between 26 and 40. So in terms of the economy of the program—and you are really not arguing this—we would still do well to take a look at the farm storage where we can.

Secretary LYNG. We will do so.

The CHAIRMAN. Senator Harkin.

Senator HARKIN. Thank you. Mr. Secretary, could you follow up on that. Could you submit to us an analysis of how it costs the commercial people more than the individual farmers?

Secretary LYNG. Yes, we have done that, Senator. We will be happy to submit that for the record, yes.

[The material follows:]

Both the producer and the warehouseman must maintain the quality of the commodity. In the case of a farm-stored commodity serving as loan collateral, the loan is based on a specified quantity of a given quality of grain. If the quality of the loan grain deteriorates while in farm storage, the farmer can redeem the loan by repaying the original loan amount plus interest. In this case, the producer has assumed quality loss. If the producer forfeits the farm-stored loan grain to CCC, the reduction in value of the loan collateral due to deterioration must be made up in cash. If the loan grain belonging to the producer is stored in a commercial warehouse, the warehouseman must guarantee that grain of the quality upon which the loan is based will be available either in the case of loan redemption of forfeiture. The warehouseman must bear the cost of maintaining the quality of the grain or risk losing his storage contract with CCC, which would impact business volume.

In order to have a storage contract with CCC, a warehouseman must meet certain minimum financial requirements and must have net worth above a minimum level which varies with the capacity of the storage facility. Warehousemen may provide other financial security such as bonds, letters of credit, etc., to meet deficiencies in net worth above the minimum. These financial securities are a cost item to the warehouseman. No such financial assurances are required of a producer who secures a farm-stored loan.

Other costs for commercial warehousemen are:

- Hazard insurance, which is required by most State laws.
- Licensing fees and other business assessments.
- Contract fees to CCC for offsetting part of the cost of warehouse examinations.
- Annual audited or reviewed financial statements.
- Performance bonds to compensate depositors in the event of a commodity loss due to failure of the warehouseman to perform his responsibility.
- Services such as cleaning, weighing, and drying.
- Liability insurance.

To maintain the quality of grain held on the farm in the Farmer-Owned Reserve, the producer is permitted to rotate the grain in storage. During the 60-day rollover period, the producer may have sold or otherwise disposed of the grain and not yet replaced it with new-crop grain. Warehouses have no such rollover period but must guarantee access to the required quantities of grain at all times.

Producers who have grain in the Farmer-Owned Reserve are paid for storage a year in advance. Commercial warehousemen storing CCC-owned grain are paid storage quarterly after the service is performed.

Senator HARKIN. Because every farmer I know, if they have shrinkage, they get docked. They have to store that corn at less than 14 percent shrinkage. If anything happens to that corn, when they turn it back in, they get docked for it.

Secretary LYNG. In the contract, there is a difference in the responsibility, and we will be glad to submit that for the record.

Senator HARKIN. That is not what I have been told for quite some time now. But that was not what I wanted to get into. I asked you that same question that Senator Lugar asked about 2 weeks ago when you were before the Appropriations Committee. I wish I now had your words you spoke at that time. You basically said that the reason you were not renewing the loans was because the market was there for the corn and that the corn would not be stored in commercial storage, that it would go into the marketplace.

Secretary LYNG. That is correct.

Senator HARKIN. What I hear you saying now is that it is not your intention to move corn out of farm storage to commercial storage. Should I take that to mean that you will not renew enough loans to satisfy some export market demand that you are not going to dump—what is it that we have now, about 2.25 billion bushels on the market? You are not saying all those loans will not be renewed?

Secretary LYNG. I do not want to be misunderstood on this, Senator. We have not, as I told you then and as I said to Senator Lugar, we have not made the final decisions on this. The 1984 loans we have made no announcement on.

Senator HARKIN. But the 1985, 1986, and 1987 loans are not being renewed.

Secretary LYNG. That is correct, we announced that they would not be.

Senator HARKIN. That is a lot of corn.

Secretary LYNG. Of course, it is a lot of corn, but we are going to be reducing our stocks of corn rather substantially this year. I think about 19 or 20 million tons less corn at the end of this marketing year, the end of August, as compared to the end of August last year. Nearly 20 million tons, it means a big reduction in the amount of corn in storage.

Keep in mind that with some of these loans, when you give an extension, you extend it for a year. Or in some of them, you extend it for as many as 3 years. And we do not want to take that so it is totally off of the market and it cannot be moved into the market system.

In making these decisions, we looked at total numbers. And we are now, as I told Senator Lugar, reviewing to be sure that—at his request and others—that the decisions have been appropriate and proper, because we are not trying simply to move it from farm to public storage or commercial storage.

Senator HARKIN. I think it goes without saying, there is a lot of suspicion out there that that is what is happening. A lot of the farmers are saying, why are they taking it from me and putting it in commercial warehouses?

What are the costs to the USDA for a bushel of forfeited corn? What does it cost USDA? Do we know?

Secretary LYNG. Cost us for storage?

Senator HARKIN. For moving it. If you move it off the farm and store it.

Secretary LYNG. I suppose it varies a great deal depending on where it is and where it goes, but there is a cost. I do not have that figure off the top of my head. I will be glad to submit the range or average for the record.

Senator HARKIN. I would like that. I wanted to really focus on my subcommittee's jurisdiction. That is also what Senator Leahy was talking about.

I have to say, Mr. Secretary, as fond as I am of you personally, I have to tell you, here is a 9-page submission on what your Department is going to be doing this year. And out of 9 pages, domestic food assistance programs get about a paragraph. It is one of the biggest parts of the Department of Agriculture, and yet it takes up one of the smallest parts of your entire plan—even the Forest Service gets more than the domestic food and assistance programs, as does export market development, as farm prices. All of them get a lot more—trade negotiations.

I hope that is not indicative of the status of the domestic food assistance programs in the Department of Agriculture that it receives such little attention. It's on page 8, almost at the end, right before departmental management. It makes you wonder what emphasis is placed on it. I just want to make the point that we have serious problems out there.

Now let's talk about food stamps. I was just making some notes while you were responding to Senator Leahy. We have 19 million people on food stamps yet we have 32 million below the poverty level. There is a gap there. That is why these TEFAP food programs are so badly needed. There is a huge gap between the need and the supply.

I was in Iowa a month ago at a community action agency in northwest Iowa where they were distributing food. I took part in that. A lot of these commodities were TEFAP commodities. A and lot of people came in there who were Social Security recipients.

One woman came in, her total income was about $318 a month, Social Security. That was all she had. Now she gets food stamps, but the food stamps are not enough to get her through the month, so she has to come in for these commodities. That is who these 12, maybe 13 million people are that are in that gap out there. For one reason or another, foodstamps are not available or their food stamps are not pulling them through.

We always hear about the benefit of the food stamp. Do you know what the maximum benefit is on a food stamp per meal, Mr. Secretary? Better yet, I should ask you what the average benefit is. What is the average benefit per meal under the Food Stamp Program?

Secretary LYNG. I do not have that figure.

Senator HARKIN. Fifty cents. Can you eat a meal for 50 cents?

Secretary LYNG. The benefits though, Senator, are not designed for 100 percent of the program. People participate depending upon their income. It is an augmentation of income. It used to be that people paid—bought the food stamps and the amount then of food stamps would be larger than it is today. But now people are al-

lowed to keep their own cash and not have 100 percent food stamps.

Senator HARKIN. I understand that. I am still saying that the average benefit for food stamps is 50 cents per meal. If a family of four, below the poverty level, making less than $11,500 a year, could get the maximum food stamps, they are getting just 80 cents a meal. But the average family of four still has to eat on $2.

Secretary LYNG. I do not think that is accurate. I would be happy to submit for the record——

Senator HARKIN. If not, I would like to know.

Secretary LYNG. Yes, I do not think that is accurate.

Senator HARKIN. I would like to know if that is not so.

Secretary LYNG. I think it is closer to 80, 85 cents.

Senator HARKIN. That is the maximum.

Secretary LYNG. That is what you said, Senator.

Senator HARKIN. Average, the average is 50 cents.

Secretary LYNG. But then those that are getting food stamps at the lowest figure are people that have more income.

Senator HARKIN. The poorest families may get 80 cents then. I think that is the max. So that is $3.20 a meal for four. Again, I have got to ask you, could you feed a family of four for $3.20? I mean, honestly?

Secretary LYNG. The diet calculations are made by our Human Nutrition Information Service and our Economic Research Service based upon an adequate nutritional diet. And you know very well, Senator, that this has come before your subcommittee on a number of occasions. It is skimpy. There is no question about it. Is it adequate for solid, sound nutrition? I think it is adequate, but it is not easy. It is difficult.

Senator HARKIN. I think it is becoming less and less adequate all the time. We have had in the last 6 years grocery prices—and I could be off a little bit, but I am pretty close—average retail grocery prices have increased 23 percent in the last either 5 or 6 years. The average food stamp benefit has not increased 23 percent in the last 5 years. So the people who are getting food stamp benefits are, indeed, falling behind.

And I have to tell you that our subcommittee will be having hearings this year and we will be talking about the need to upgrade some of these programs, especially the Food Stamp Program; how we can meet that gap that we see in there. And second, whether or not the people who are getting food stamps are even really getting the necessary food that they need.

As I said earlier, I ran into one woman, a Social Security recipient who gets food stamps, yet they do not get her through the month. So she has to rely on the food pantry—now the pantries are told that they will not get the TEFAP commodities because we are running out of the surplus commodities.

Now I want to talk to you about the School Lunch Program, too. As you say, a lot of these kids in the low income families get the free lunches, or reduced. If they have some income, they may get a reduced meal. But a lot of them get the free lunches. I want to look into how many students have the school lunch available to them in this country. I think there is a supposition that all kids that go to public schools get school lunches.

Secretary LYNG. It is not quite true that all do, but it is heavily in the majority. We have that data. There may be a few communities, or perhaps individual schools in some instances which don't have school lunches. But, Senator, is it a Federal problem if a school district makes its own determination that it will not serve free school lunches which cost the community nothing? We provide free school lunches for needy children. It seems to me that that becomes a blot on that community and is not something that the Federal Government can really solve.

Senator HARKIN. Yes, because we have to figure out other ways of getting to those kids then because I submit to you that it is a national problem. That hunger in America is a national problem, not a State and local problem. There are some local communities that have very low income. They may be rural areas, they may be areas that were hard hit by the economy in the last few years. They do not have the wherewithal to feed hungry schoolchildren. But other more prosperous States can pitch in, through the Federal system.

We are not a confederacy, Mr. Secretary. This is a Federal Government, not a confederacy.

Secretary LYNG. I would disagree with you on—not the question of confederacy—but on the issue of the responsibilities of the Department of Agriculture or the Federal Government to go into a school that refuses to provide a free school lunch to needy children that would cost them nothing, and force them to provide school lunches. How do we mandate that?

Senator HARKIN. What I said is, if that is the case, if they have opted out of the School Lunch Program, then we ought to look at other ways of meeting the needs of those hungry children because it is not their fault. I am sure they did not vote to get rid of the School Lunch Program. I am saying to you that we have an obligation to meet those needs out there. Maybe not through the School Lunch Program, but some other way we have to meet those needs.

Secretary LYNG. Senator, you then get in a similar situation in cases of child abuse. And that perhaps is even a greater number of children that are suffering from malnutrition, hunger, because they are being abused by parents and by those that are caring for them. It is a very difficult subject for the Federal Government to get into.

Senator HARKIN. Are you a lawyer, Mr. Secretary?

Secretary LYNG. No, I am not.

Senator HARKIN. Well, that may be a benefit. But child abuse is a criminal sanction. States operate criminal laws, not the Federal Government. Hunger is not a criminal provision. That is the difference and the reason why your analogy doesn't fit here.

Yes, we do have a national obligation toward hungry people. We have decided that as a Nation. Now unless we want to go back and say, no, this is only a State problem or a local governmental problem—child abuse is a criminal violation. There are criminal charges that apply to child abuse, not to whether or not kids get enough food or not. So that is the difference.

No, we do not have a responsibility for child abuse because that is in the criminal laws and that is State regulated not Federal Government regulated. That is why I ask you if you are a lawyer, you

would recognize the difference in those two aspects. But I do believe that hunger is a national problem and that we have to meet those needs.

I have talked to the school lunch people, Mr. Secretary, and they tell me that because of the cap—the School Lunch Program has been capped at 1987 levels, for the first time ever—the average school lunch may go up by as much as a dime. If that is the case—based on what has happened in the past, for every penny increase in the School Lunch Program, we get about a 1 percent dropout in Iowa. If the kids drop out, that means the cost per unit becomes higher. And what happens is that it is many of the low income kids that really get hurt on this.

So again, I wonder if because of the lack of the bonus commodities, we are also increasing the cost of school lunch. People may drop out; they may opt out of the School Lunch Program. And it is the low income poor kids who get hurt the most because of that.

Secretary LYNG. We will continue, Senator, to provide 100 percent of the cost of free school lunches to needy children. We will provide half of the cost, whatever it is, for those that are near needy. And you know those numbers. And we will continue to provide the same level of bonus commodities that we gave last year. That is not a reduction.

Senator HARKIN. But that is a real cut, Mr. Secretary, when you cap it at last year's level. Inflation has taken place since last year.

Secretary LYNG. This is in pounds of commodities. This is not in dollars, this is in pounds. We will give the same quantity, so that it is not a cut.

Senator HARKIN. Now something is wrong here because the school lunch service people tell me that they are not going to get as much commodities in real terms as they got last year. And you are telling me they will.

Secretary LYNG. Yes, there have been some concerns about that because obviously the word that our Government surplus stocks have come down has made some uneasy out there. But the fact is that we will provide the same quantities of commodities in 1988, in calendar year 1988 or school year 1988, that we did last year.

Senator HARKIN. I need to look into that, because what they are telling me is that if there is no increase in bonus commodities, because of inflation, the cost of the school lunch will go up, and they need more bonus commodities. So they are telling me that they are going to have to increase the price of the school lunches.

Secretary LYNG. I think it should be the opposite, as a matter of fact. I think that there is enough declines in the cost of poultry and other commodities, that school lunches use heavily that they should be in pretty good shape.

Senator HARKIN. We will look into that and try to get to the bottom of that one then.

One last thing, Mr. Secretary. Last week I sent you a letter and a copy of a Business Week article that was in "Business Week" February 22. It describes the litigation involving Beech-Nut and its sale of adulterated apple juice. Evidently, what Beech-Nut had been doing—it is a subsidiary of Nestle—is selling something as pure fortified apple juice, no sugar added, et cetera. There is a picture of their product here in "Business Week." And what we found

out is that it was not apple juice. It was water, food coloring, sugar and some chemicals. And they had been selling this as apple juice for a long time.

The WIC Program, I believe, allows for purchases of apple juice. And as I understand it, the Commodity Supplemental Food Program, I guess purchases apple juice also. I wonder if there are other USDA programs that purchase apple juice. I understand that 16 percent of the WIC budget goes for juices. And I just want to know if you have any idea, do you have any records to indicate how much apple juice was purchased, and how much was purchased from Beech-Nut? And what I want to know is, do you plan to attempt to recover any of these amounts from Beech-Nut, and have your attorneys down there go after them for this fraud?

Secretary LYNG. Senator, having received your letter, we looked into that. The U.S. Department of Agriculture has not purchased any apple juice from Beech-Nut. The WIC Program, we give those coupons and people can exchange those at retail establishments. We do not have any data as to how much might have come from Beech-Nut. We know that their total share in that market is not a large one, so I would presume that they would have not gotten a large share. But we have no control over how the individual recipient of those WIC coupons expends them any more than we do how food stamps are used.

Senator HARKIN. I am glad to know that we did not buy any of that apple juice.

Secretary LYNG. We did not buy any from Beech-Nut.

Senator HARKIN. I notice that they sent a lot of it to Puerto Rico. I forget how much, but they sent a huge amount of that to Puerto Rico, which as you know, is a very heavy user of food stamps.

Secretary LYNG. And as I recall, the top executives of the company were convicted of a felony in this matter.

Senator HARKIN. Beech-Nut pleaded guilty to 215 felony counts. But the Company executives are still in litigation. It burns me up that this was marketed as baby juice. Obviously, I think people probably either bought it with food stamps or through the WIC Program. And there is just no way of knowing how much was purchased. Is that what you are telling me?

Secretary LYNG. No way.

Senator HARKIN. At least I am happy to know that it was not purchased for the CSFP. I want to close by saying that we will be looking into the issues involving food stamps, WIC, the surplus inventories, the bonus commodities, and the School Lunch Program to try to get to the bottom of some of the issues that have been raised today.

Secretary LYNG. We will welcome that. We will be pleased.

Senator HARKIN. As I said, last year we had good cooperation and I look forward to that same cooperation this year.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman. I am befuddled sometimes with these highly technical terms that Senator Harkin has been throwing around, this baby juice concept. But I share your sentiment and your outrage at the kinds of things that have

happened for so long, and I am delighted to see that we have not contributed to that to any greater degree than we have.

Dick, I would like to follow up with your answers to Dick Lugar with regard to this storage because it is probably the number one thing that we hear about when we go back home all the time, and I would like to be able to clarify it this weekend when I go home. First, with regard to commercial storage. Did I hear you accurately in that you said there will be no grain going from-on-the farm storage into commercial storage? You have given us that assurance?

Secretary LYNG. No, obviously, I could not make that assurance because we have to have some of this grain moving to facilities where it can be made available for export or domestic use. My goodness, many of these Farmer Owned Reserve loans are in commercial storage. It is not all stored on the farm. Many of the loan commodities are already in commercial storage.

What I said was that our policy in not extending these loans that have been extended in the past, many of them in existence for a long time, is to make the grain available for domestic or export use. And it was not the purpose of this thing to just simply transfer grain from on-the-farm storage into commercial storage. That is not our——

Senator DASCHLE. But that is what is happening in South Dakota is that they are not. The elevators that are getting the grain, in many cases, are as far away from the export markets as the farms themselves. And that is what is perplexing and which defeats your argument.

I could see if the commercial facility is just used as grain, as a facility for grain in transit to export markets. But oftentimes, the grain is going off the farm into a regional commercial storage facility where the Government is paying as much as 14 cents more for that product. And then it sits there. And I suppose there would be two different purposes.

If that is the case, I think that you need to assure farmers, and hopefully this committee, that is not happening. That where grain is going into a commercial facility, it will not stay there. It is enroute to some export market in a matter of days. Is that your assurance?

Secretary LYNG. That is definitely the case. Let me assure that as you request. We are not moving it from farms to put it in dead storage, or long-term storage in commercial facilities.

Senator DASCHLE. You also indicated that you are reviewing this decision with regard to 1984 grain and 1984 corn.

Secretary LYNG. We have not made a decision on that 1984 corn. That is corn that is under the loan. It has been extended on an annual basis. We have not yet announced that.

We are also, at the request of Senator Lugar, reviewing the other announcements which we had earlier made on corn. Not on wheat.

Senator DASCHLE. Would a decision with regard to that review be forthcoming in the next couple of days, or are we talking weeks?

Secretary LYNG. We have been trying on the 1984 corn to wait as long as we dared in order to be able to have the benefit of actual knowledge about export sales. You know, this is a dynamic situation that we are involved in, and we have not wanted to do this before we had to. I would say that it might be weeks. It certainly

will not be days because I do not think we are prepared to make announcements in the next 2 or 3 days.

Senator DASCHLE. Right now there are not many points that are as sore a subject. There are two. And one is the heifer tax and the other is the diesel tax. And any enlightenment you can give us with regard to the administration's position on repealing those would be very helpful.

But if there is a close third, it would be this concept of putting grain, on-the-farm storage grain into commercial elevators within a region and letting it sit there. And your elaboration, if you could provide it to our offices, in addition to the committee, as to why the 14-cent disparity would be very helpful.

Secretary LYNG. We will try to do that.

Senator DASCHLE. People come up time and again and express themselves, and ask about this disparity. I do not have an answer for them. I honestly do not, except that the elevators have a better lobby in Washington than the farmers do. And there has got to be a better explanation than that. I do not buy, and I do not think you do either, that it is simply that elevator have a greater responsibility. If they do, that needs to be elaborated.

And second, certainly even if they did have, could not be the equivalent of 14 cents additional responsibility. So whatever information you can provide us with regard to the review, with regard to assurances relating directly to this commercial question, and third, the disparity in price or in payment, would be very helpful to us.

Secretary LYNG. We will be pleased to do that, Senator.

Senator DASCHLE. Let me turn to loans, if I can for a minute. This committee spent an inordinate amount of time last year working with you and your people, I might say on one of the more productive efforts that I have participated in in my time in Congress, in coming up with what I consider to be one of the finer pieces of credit legislation that we have addressed in many years.

Having done that, the impression I had all along was that there was going to be a commitment on the part of the administration to follow through, to ensure that both Farm Credit, to the limited degree that they have a role there, but especially with Farmers Home, that we are going to make that bill work, and that we are going to put it in action as quickly as we can and see that it is properly financed.

Well, when I saw the budget and saw the significant cuts, the elimination, I might add, of direct loans, and the transition that you are proposing in the budget with regard to loans, more and more toward the guaranteed loan program, it seemed to me that it was just a slap in the face with regard to the progress we made last year, undermining our chances for success with Farm Credit, destroying the credibility in terms of the administration's commitment to the farm credit bill, and ultimately causing some very serious concern with regard to credit availability as we are going through a difficult time.

How do you address that?

Secretary LYNG. Senator, your information is inaccurate in terms of our elimination of direct loans. We have in the proposed budget $900 million in Farmers Home, farm operating direct loans. That is

the current year. I am sorry, in the 1988 current estimate, it is $900 million, and guaranteed loans, $2.15 billion. We are reducing the direct loans from $900 million in our proposed budget to $500 million, but we are increasing the guaranteed loans from $2.15 billion to $3.5 billion; a total of almost $1 billion more for farm operating credit in fiscal year 1989 than we have in the current budget of 1988.

And we have found, Senator, that the guaranteed loan program has worked very, very well. It is accepted by farmers. We have seen a big growth in that. And we think it is a good way to do business. Country banks like it, and local communities seem to like it.

Senator DASCHLE. I have no problem with the guaranteed loan program. And to the extent that it can be utilized, we have to do so. But I hear all through South Dakota that the direct funding availability for loans through the Farmers Home is virtually nonexistent. That it is just not there.

So whether you are going to zero it out this year or at some point in the near future, the word is that you are going to zero out direct loans. So number one I would ask, can I have your assurance, are you giving the committee your assurance that there will not be a zeroing out of direct loans in the foreseeable future? And number two, that in terms of direct loan availability, there is going to be adequate funds to go around to meet the obligations that we have committed to with regard to the Farm Credit reorganization bill last year?

Secretary LYNG. I think there will be adequate credit, to answer the latter part first. As far as the administration's position on fiscal 1989, the year starting next October 1, we will continue to have funds for direct loans, but not as much as we have had in the past.

Senator DASCHLE. But that is not what I was asking. Are you suggesting then that beyond fiscal 1989 the prospect exists than an administration proposal could be forthcoming to zero out direct loans?

Secretary LYNG. Senator, you know we have an election coming, and it would seem to me to be quite presumptive for me to suggest what the succeeding administration may do. If I continued to be Secretary of Agriculture, I would continue to minimize the amount of direct loans as low as it could possibly be done because I think the guaranteed loans have become a way for farmers to gradually work their way back into the mainstream.

These programs in Farmers Home are designed for, as you know, noncreditworthy farmers; farmers who cannot go into a commercial bank and get financing. I think there is some real benefit to get them in the habit of working with the banker, even if the Federal Government guarantees it so that they can get credit. And I would like to see it get to the point where they could get credit without the Federal Government guarantee. I think this is the right way to do it.

Senator DASCHLE. I could not agree more. I think that we have to provide that. But that anticipates that you will get proper forbearance on the part of banks and that in all these cases there just is not any need any longer for Farmers Home involvement. And I

think that may be too rose-colored, if you do not mind me saying so.

I think that in many cases, were it not for Farmers Home direct loan availability, farmers would not be there today. And I think that it is going to be incumbent upon the Farmers Home, as long as that bridge continues to be necessary, that the financing be made available. Simply to say it is no longer needed, and then to put farmers out there without any alternative except that guaranteed loan program, is too much to ask, especially as we go through this very sensitive 24 or 36 months as this Farm Credit reorganization plan becomes the process by which farmers are going to be eligible for loan money.

Secretary LYNG. We are not suggesting that. We want to continue the direct loans.

Senator DASCHLE. Well, you are continuing them for one more year. That is the only assurance I hear you giving me this morning. And then it is at 50 percent of what it was last year, and it is about 20 percent of what it was 4 years ago.

Secretary LYNG. Senator, that is what this hearing is about, the 1989 budget.

Senator DASCHLE. That is true. You can play semantic tic-tac-toe here, and that is what I see us doing. All I am saying, and I know you will not give me a commitment because we are not going to get it for a lot of reasons, but I think that it is important that you understand, and I am sure you do, that direct loan availability still has a very important purpose. And when one sees the continued degradation of the availability of direct loans, especially in light of what happened last fall, there is just a concern there and I am expressing it.

Let me ask you——

The CHAIRMAN. Could I mention, there is going to be a vote at noon, and I am not going to come back after that. I know Senator Conrad wanted to ask a question. I am willing, if either one of you have further questions, to keep the committee open while you go and vote, and one of you come back to continue it.

Senator DASCHLE. Mr. Chairman, I did not realize the time was getting away from me. I yield the floor, and I will have some additional questions for the record.[1]

The CHAIRMAN. As I said, we can chat just briefly before we go over to vote because if either one of you want the Secretary to stay a few minutes longer, I am sure he would be willing to.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Mr. Secretary, did I read correctly that you have said, according to the papers, that net cash income was at a record level in 1987?

Secretary LYNG. Yes, farm income was at a record level in 1987.

Senator CONRAD. Well, that is not really true, is it, when the figures are adjusted for inflation?

Secretary LYNG. I thought it was true when I said it. [Laughter.]

Senator CONRAD. I would urge you to go back and check the record, because those are not the numbers that I have. Did you

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[1] See p. 72 for questions submitted by Senator Daschle and the supplied answers.

adjust for inflation? Did you put everything on an equal footing, or did you take credit for the inflation that has occurred?

Secretary LYNG. I will have to have our Economic Research Service prepare something to show you how it is computed and how it compares.

Senator CONRAD. Let me just give you the numbers that I have because I would be very interested in finding out the discrepancy between what you said and what I have in my records in terms of either net farm income or net cash income, either one. In either one, the statement does not hold up.

On average net cash income for 1960 to 1969, $43.4 billion was the average; 1970 to 1979, $54.2 billion; 1980 to 1987, $39.6; 1987, $44 billion. Those are all adjusted for inflation to 1982 dollars. That would certainly tell us that we were not at any record. 1987, if we look at net farm income, we will find the same pattern. We do not have a record in 1987 if inflation is taken into account.

And I think we need to communicate accurately with people and the status of agriculture, I tell you, I found a lot of farmers in my State very upset because they think you are sending precisely the wrong signal when you go around saying, we are in record shape. That sends a message that everything is fine. And I know you know that things are not fine. Certainly, the farmers in my State do not feel that things are fine.

Let me pursue with you something else that is of great concern. I have just held a community forum in my State that the grain dealers and farm organizations requested. We are experiencing a 40- to 50-day delay in getting grain cars; 40 to 50 days. Unparalleled, we have never seen anything like it. And in the forum we held, the room was absolutely packed, and you were kind enough to have one of your transportation people come, which I very much appreciated.

The analysis of what is happening in our State was that the combination of catalog sales, the CCC sales, the callup of the Farmer Owned Reserve, and a new transportation program put in place by the Burlington Northern called the certificate of transportation, that the three of those working together have created this problem, which is a very serious one.

I asked the elevator operators who attended the forum how many of you have substantially fewer cars available to you this year than a year ago. Without exception they raised their hands. There were 80 elevator dealers there, every single one raised his hand. Substantially fewer cars were available than a year ago.

And I am wondering, what is your analysis of what can be done to deal with this problem?

Secretary LYNG. I wish I had a solution to it, Senator. I do not have. We have heard a lot about this and we have had our people—as you say, they attended your hearing to study this. It is not just the Burlington Northern. There are other railroads that are having troubles, and I guess it is the combination of the things you mentioned.

The export volume has been much higher than we have had in the past. There is an awful lot of business out there. I suspect that as time passes here, we will see this thing begin to improve. But it has been a critical problem.

Senator CONRAD. One of the solutions that was suggested was to slow down the catalog sales. From your perspective, is there any merit in that?

Secretary LYNG. As it has turned out, we have done that in the last week or so because we did not think the bids were adequate. That may be taking place, although we will be having a bid opening this afternoon. Now that is from the exchanges that we do on a bid basis.

There have been some very active catalog sales beyond that, of both feed grains and wheat. And we think those ought to be continued. People would not be buying them, we do not think, unless they needed them. And we want to continue to see those exports moving, and domestic usage is good.

Senator CONRAD. Let me go back to a point that Senator Daschle made, because I find it is causing a real aggravation out in the heartland. That is the question of callup of the Farmer Owned Reserve and not providing those loans, not extending those loans. If there is any chance to have that policy reviewed in the Department, I think it is worth another look.

Given what is happening out there in the transportation system, I would very much hope that you would analyze it and get with your transportation people and come back with some analysis of what might be done to alleviate the pressure out there.

We have the very strong sense from the hearing that there is a lack of coordination and that we are going to be tripping all over ourselves if somebody does not get on top of this and try to find a way to coordinate our activities better.

A couple of quick points I want to make before this vote. Swampbuster and sodbuster, as you know, the penalty, which is the loss of all farm program payments, is for any violation. We are going to be having a hearing [1] this Thursday—there is a growing consensus that it does not make sense to have the maximum penalty regardless of the size of the infraction. Would you have a reaction to that?

Secretary LYNG. No, I am sorry, I am just not that familiar with the penalty for that.

Senator CONRAD. Let me ask you this. As a general proposition, does it make sense to you that the penalty is the same regardless of the infraction? Whether it is a minor infraction, major infraction, all of them get the same penalty, loss of all farm program payments.

Secretary LYNG. It sounds like the person with a very minor infraction would feel that they have been unfairly treated.

Senator CONRAD. I agree. I appreciate that reaction. I think that is a reasonable reaction, and I think we will find it is a consensus reaction of people, because it just does not make sense.

Secretary LYNG. I do not know what the law says or what the flexibility the enforcing people have on that. I am just not familiar with it.

Senator CONRAD. There is a minimal effects provision. The problem is that any infraction over the minimal effects, whether it is

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[1] Oversight of Conservation Programs—Subcommittee on Conservation and Forestry of the Committee on Agriculture, Nutrition, and Forestry—March 24, 1988 (S. Hrg. 100-757).

minor or major, is treated the same way in the law. And that is a serious problem. You can imagine the level of anxiety out there.

I just had a gentleman come to me, who had measured improperly. Never finished high school, this gentleman. He really operated in good faith and measured wrong, planted 8 extra acres of wheat, 8 acres. He is faced with the loss of all of his farm program payments. He and his wife, 60 years old, came to one of my forums and just broke down crying. They are faced with the loss of their entire way of life. That is what is facing them because he measured wrong. You know, there is something terribly, terribly wrong when we have a system that would do that.

Two other things that I would be remiss if I did not mention, heifer tax and diesel tax. As you know, the agriculture community feels very strongly about both of those. And I also want to express our concern with what—you have put in the budget numbers on Research and Extension Service. Our indications in my subcommittee are that our research is not programmed correctly. That we are not doing a good enough job at the commercialization of our basic research. And that instead of these significant cuts proposed, that we ought to be redirecting the resources.

I have run out of time. I do not want to take any more of the time here because we do have a vote coming up. I want to thank you. And I would very much like to get your reaction on those income numbers because I think it is very important we send the correct message out there.

Senator DASCHLE. Mr. Chairman, could I ask one real quick question for clarification?

The CHAIRMAN. Of course.

Senator DASCHLE. Dick, could you give me the budget figure for direct farm ownership loans and emergency disaster loans for fiscal 1989?

Mr. DEWHURST. Senator, there is no money in the budget for direct farm ownership loans. And there is $100 million for emergency disaster loans.

The CHAIRMAN. I am sorry, what was the number?

Mr. DEWHURST. There is no money for direct farm ownership loans, and $100 million for emergency disaster loans.

Senator DASCHLE. I just think the record needs to be clarified. The Secretary said that there was $500 million for direct loans. The point is that there is absolutely zero for ownership, $500 million for operating, and $100 million for emergency.

Mr. DEWHURST. Yes, sir, that is correct.

The CHAIRMAN. Have the Dakotans had all their——

Senator DASCHLE. No, I would like to go some more.

Senator CONRAD. No, we have a lot more.

Senator DASCHLE. But we will wait.

The CHAIRMAN. I will keep the record open until close of business on Thursday for any Senator who wishes to submit further questions. And I apologize to both Senator Daschle and Senator Conrad that we foreshortened the time somewhat. Their questions are extremely important and I would want us to be able to get a chance to at least submit the questions for the record, and if need be, we would then have a further hearing. Gentlemen, thank you for being here.

Mr. Secretary, I appreciate you being here. I should probably note that the note I slipped you, for some who were looking and wondering what it was, when you mentioned about being Secretary next year. And the note I slipped you, said if you were still Secretary next year, I suspect Mrs. Lyng would be most disgruntled.

Secretary LYNG. I think I would be sort of disgruntled, too. [Laughter.]

The CHAIRMAN. Thank you for being here.

Secretary LYNG. Thank you, Mr. Chairman. Thank you for being so well treated.

The CHAIRMAN. We stand in recess.

[Whereupon, at 12:06 p.m., the committee adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

QUESTIONS SUBMITTED BY SENATOR LEAHY

CREDIT REFORM

Question. Included in the President's budget request are sweeping credit reform initiatives. The Committee understands that the reform package would not affect commodity program loans. What will be the impact of these credit reforms, if enacted, in the agricultural and rural development credit programs operated by the Department?

Answer. The credit reform initiatives proposed in the 1989 budget will not affect the level of activity or the manner in which the agricultural and rural development programs are administered. The intent of the proposal is to provide a means of identifying the cost of subsidized credit and requesting appropriations to cover this cost "up front" rather than requesting appropriations after the loans are obligated. The budget proposes that credit agencies request the subsidy cost of the loan programs in their budget submissions to Congress. As the loans are obligated, the agency would pay the subsidy component of the loan into the appropriate revolving fund in Treasury. Borrowers would continue to make loan payments to the agency which in turn would pass the interest portion of the repayment to the revolving fund in Treasury to repay the cost of Treasury borrowing the funds. For guaranteed loans, fees, if any, paid by the borrower and the subsidy amount would be paid to the revolving fund for guaranteed loans. This revolving fund would also cover defaults.

Question. Would the proposal change the profile of borrowers using federal credit through FmHA, REA and other credit programs operated by the Department?

Answer. The proposed changes will have no effect on individuals or organizations applying for Federal credit. The proposal affects only the method of budgeting the programs.

NUTRITION PROGRAMS

Question. What percentage of women, infants and children who are eligible for WIC program benefits are denied those benefits due to lack of funding?

Answer. Our most recent information from our Estimation of Eligibility for the WIC Program, published in July 1987, shows that among those below poverty with medically based nutritional risk, WIC serves over 70 percent of pregnant women and about 90 percent of infants. It is just not reasonable to assume that those not served are individuals denied benefits. For example, in recent years, the WIC program has found that 4-5 percent individuals certified to participate in the program do not follow through and use the program. These individuals are not taking advantage of the program. In addition, like all Federal assistance programs, WIC experiences a certain non-participation rate. That is, individuals that apparently meet eligibility criteria sometimes do not want to participate in the program, for whatever reasons.

I would like to make one other point because we so often get this question of why only about 40 percent of eligibles participate in the WIC program. The fact is, the WIC legislation provides a two-phase definition of eligibles. First, eligibles must be below 185 percent of poverty. And, second, and both of these conditions should be met, eligibles must be found to have nutritional risk.

The original intent was not to provide services to everyone below 185 percent of poverty. I know, because I was the Assistant Secretary in charge when we implemented this program back in the early 70's. Also, the definition of eligible is broad to assure that State and local programs have reasonable latitude to serve those that really need it. Since the early days, the WIC program has become the nation's largest employer of nutritionists as the States try to assure that those at nutritional risk are certified for the program, and not just anyone who meets the income requirement.

Some have long tried to take advantage of the sensible flexibility provided in the original law and argue that everyone who meets the income portion of the eligibility standard should be served by WIC, whether local officials identify any significant nutritional risk or not. Simply stated, by making it look like the total number of people at nutritional risk is very large, the WIC program is not credited with the success that it has been. WIC is a large program, having grown over 130 percent since 1980. It is a well targeted and successful program, serving a large proportion of those who most need it, those with medically-based nutritional risk and with low income. We do not believe that program benefits are being denied to the most needy and at risk women, infants and children.

Question. What level of funding is needed to ensure 100 percent participation of eligible individuals?

Answer. As I have indicated, we believe we are presently reaching the truly needy women and infants with WIC program benefits; and that our combined WIC/CSFP funding request of $1.9 billion is adequate to meet their needs for nutrition education and assistance.

FARM CREDIT

Question. The Secretary's testimony referred to the Agricultural Credit Act of 1987 several times. Included in the Act is a demonstration interest rate buy-down program to allow for the purchase of Farm Credit System inventory property. However, there does not appear to be sufficient funding requested to fund this plan. The budget request also does not appear to have sufficient funding for guaranteed farm ownership loans in order for Farmers Home to meet the demands of both the demonstration program and the regular farm ownership guaranteed program. What are the Department's estimates as to the potential funding needed for the demonstration buy-down program, if fully implemented?

Answer. The Agricultural Credit Act authorizes the transfer by FmHA of funds from the guaranteed operating loan program to the guaranteed ownership program, and directs the Farm Credit System to set aside up to $250 million each year in inventory for the sale under the demonstration project. FmHA has already transferred $250 million from the guaranteed operating program to the guaranteed ownership program, and has estimated the subsidy required over five years on sales this year will total $50 million. Another $50 million in subsidy funding is expected to be used for interest rate buy-downs other than those relating to Farm Credit System inventory properties. For 1989, the interest buy-down program will be continued at the same level. Sufficient funding for this activity remains available from the initial $490 million provided in the Food Security Act of 1985. The guaranteed farm ownership loan program is budget for $100 million in 1989. However, the authority to transfer funds into this program from the guaranteed farm operating loan program remains in effect through 1900. The guaranteed farm operating program is budgeted for $3.5 billion in 1989.

Question. What are the Department's estimates of the demand for the regular farm ownership guaranteed and direct lending programs?

Answer. Last year FmHA received about 12,000 applications for farm ownership loans, which is less than half the number received two years earlier. These applications represented a loan demand of about $1.5 billion, far more than the $75 million in direct loans and $325 million in guaranteeed loans that was available. We are able to provide long-term assistance through refinancing and rescheduling authorities and through installment sales of our property in inventory. This satisfies much of the demand.

Question. Has the Department requested sufficient funds to implement the entire Agricultural Credit Act of 1987?

Answer. With regard to FmHA, the Act primarily affects the restructuring of existing debts and does not require new funding. A new appeals division that is required by the Act will be funded out of the existing salary and expense account. However, the Act authorizes FmHA to use its revolving funds for this purpose, if necessary. Some start-up costs are being funded in this manner this year. The Act does authorize grants for state mediation programs that were not funded in the 1988 Appropriations Act and that are not provided for in the 1989 budget. However, several states have already established state mediation programs and are expected to continue to fund these programs out of their own resources.

RURAL DEVELOPMENT

Question. Last year Deputy Secretary Myers announced a six-point plan to revitalize our rural areas in hearings before the House Agriculture Committee. This Rural Development Initiative is part of the President's budget. However, the Committee notes that the President's budget proposes to reduce by $187 million

funding for rural development programs administered by Farmers Home Administration. Funding for Small Community and Rural Development overall is reduced by $2.6 billion. Please review the six-point Rural Development Initiative, and provide details on the Department's actions toward implementation of the Initiative.

Answer. I will provide the details for the record. Briefly the six-point program is comprised of coordination, information, technical assistance, research education, and business development capital. To insure effective direction and coordination of this effort, I have asked Deputy Secretary Myers to assume responsibility for seeing that various activities are carried out.
(Additional information follows.)

USDA's Rural Development Effort

The Department of Agriculture recognizes the special partnership shared with rural Americans. There are opportunities to effectively meet the growing needs of Rural America and USDA's Six Point Rural Regeneration Initiative is one tool to continue the task.

Following is an outline and status report relative to the Six Point Initiative:

Point One emphasizes the need to develop leadership at the local level. Leadership is a critical component. Without sound managers, those small towns and localities find themselves at a disadvantage. USDA's solution to meet that need is to tap the considerable resources found within the Cooperative Extension Service (CES). The Extension Service has a vast network of specialists that have been charged to develop educational programs to expand the pool of quality leadership and improve the educational support for community leaders.

Current estimates indicate that CES provides more than 900 staff years of effort to deliver programs to 3,500 rural governments and 2.1 million rural officials.

Four Regional Development Centers are working with USDA. They conduct research, coordinate conferences, and execute education programs in rural America. The Centers are active in rural economic development and work closely with States, universities, the private sector, and the many Federal agencies with a rural development role.

Point Two of the strategy establishes Rural Enterprise Teams (RET). These teams are used to deliver technical assistance to rural officials. The Teams are comprised of a unique mix--USDA specialists who live and work daily with rural citizens and members of State Government. Private sector organizations, economic development corporations, and financial institutions play a key role. This blend of talent, coupled with broad experience and commitment to rural development, lends itself to communities needing assistance. The group stands ready to respond to a request from a community and can provide technical assistance, guidance, and develop plans tailor-made for that particular community. The needs vary greatly from state to state, indeed from county to county. Local people are in the best position to know what their exact requirements are.

Currently, there are well over 500 Rural Enterprise Team members in 46 states. Their ongoing activities in promoting rural economic development are evident and the impact of RET is noticeable.

Rural Enterprise Teams are as diverse as the communities and people they serve. In Iowa the teams are organized geographically. In Arkansas the RET's have specific areas of expertise such as Environmental Pollution; Business and Economic Development; Rural Development and Leadership; and Alternative Crops and Enterprises. Missouri has its Rural Enterprise Team organized by regions and districts of the State. The important fact is that the team is turned to local concerns.

Point Three is USDA's Rural Information Center--a nationwide information clearinghouse and referral service. Local officials may access the service through a local Extension Service office. The caller accesses a data system, located at the National Agricultural Library, that has the world's largest collection of agricultural information and rural related topics. The simplicity of the system, working through the Cooperative Extension Service, allows local officials to obtain the information required. The Extension Service also provides follow-up assistance.

To date, callers have requested information ranging from water and sewer questions to population statistics to specifics on how best to diversify a local economy.

Point Four of USDA's Rural Strategy calls on all USDA agencies with a research mission to increase already existing efforts devoted to rural economic development. Currently, the Economic Research Service is providing on an ongoing basis, statistics and data on rural America. Their RURAL ECONOMIC DEVELOPMENT FOR THE 1980's is an excellent example. Agencies within the Department are exploring such issues and questions as: what is the actual need for nonfarm full-time and part-time workers in rural communities? What resources are available? What markets exist or can be developed?

The Agricultural Research Service (ARS) has expanded research on development of new uses, both food and industrial, for agricultural commodities, which is a basis for economic development in many areas.

The Fifth point of the strategy is designed to meet the need of financing those community facilities and infrastructure projects in rural America. The Secretary has instructed the Farmers Home Administration to redirect its Business and Industry (B&I) loan program funds. Funds will be used to create more employment opportunities and give preference to those communities demonstrating the greatest need. In FY 1988, $95.7 million will be available. In 1986 the B&I program loaned $56 million and resulted in approximately 2,000 jobs. In 1987, some 7,000 jobs resulted from $95.7 million; and it is projected that in 1988 with the same funding, 10,000 jobs could be created or saved.

The last point of the Rural Regeneration Strategy stresses the priority of rural development at the U.S. Department of Agriculture. By placing overall direction and coordination of programs in the Office of the Deputy Secretary, USDA keeps to the forefront its commitment to assisting rural America.

Rural America is changing and the ways to address those needs are also changing. The redirection and targeting of resources has proven to be an effective means of helping make a difference. The USDA plays the role of managing partner in this undertaking. The most important role will be that of the rural people themselves. They must make their own decisions, allocate their resources, use their own ingenuity, and set their own course. USDA will continue to be an active and willing partner.

About 18 months ago the President established the Task Force on Rural Communities. This group, consisting of 20 high-ranking government officials, cuts across all Federal agencies having rural responsibilities.

The Task Force meets regularly and is considering many concepts in the search for a proper Federal response to changing rural needs. The Group reports to the Economic Policy Cabinet Council at the White House with recommendations for action by all pertinent Federal agencies.

The Cabinet Council responded with the following plan: The Task Force on Rural Communities became an ongoing working group of the Economic Policy Council. Secretary Lyng chairs the Task Force with a three part mission. First, the group will work to seek better coordination of Federal rural development programs. Secondly, hearings will be held on the effects of Federal programs and regulations on rural communities. Lastly, the group will continue to develop policy proposals for consideration.

This short paper just highlights USDA initiatives and progress and further emphasizes our commitment to assist in the development of America's small towns and rural communities.

Question. Describe the impact the President's proposed reduced rural development funding would have on carrying out the initiative.

Answer. Within the funding constraints, the budget includes a clear focus on rural development. Funding is requested to meet the most critical needs of rural areas and will be targeted to the neediest recipients. While below the 1988 level, this funding will provide effective assistance as rural areas diversify their economies to meet the demands of a changing economy. In total, the President's budget serves the dual purposes of reducing the Federal deficit while targeting limited resources to the most urgent rural needs. We believe the budget is consistent with the achievement of an effective rural development strategy.

Question. Included in the President's budget is a proposal to repeal those portions of last year's budget reconciliation package that allow rural electric cooperatives to play a larger role in rural development. Please discuss the role you envision rural electric cooperatives playing in advancing rural development.

Answer. In the case of the cooperatives being able to utilize 15 percent of the value of their utility plant for rural development purposes, we feel that this would encourage borrower pressure for additional 5 percent loans at a time when spending reductions are necessary to reduce the deficit.

We feel the cooperatives will continue their strong and effective presence in rural development activities without these provisions. In most rural areas, cooperatives already provide a great deal of technical assistance in economic development activities. Cooperatives are also able to invest 3 percent of the value of the utility plant in rural development projects without REA approval. Cooperatives can also apply for waivers to the 3 percent rule, which we have not refused to date. Given the fact that only 25 percent of the sum available from the 3 percent rule is used, we don't see a need for expanding the rule.

RESEARCH - BIOTECHNOLOGY

Question. Numerous government reports cite the paucity of USDA funding for biotechnology research. For example, the National Research Council's 1987 report, Agricultural Biotechnology, Strategies for National Competitiveness, stresses the need for increased investment in biotechnology. The report concludes that funding for basic research within USDA is well below that of other federal agencies. The study recommends that competitive grants, totaling $500 million annually be dispersed by federal agencies related to agriculture. If new monies are unavailable, the report advises that existing research program funds be redirected within USDA to heighten the priority given to biotechnology. The Department's request for competitive grants for biotechnology research does show an increase from last year's

levels. However, less than 7 percent of the Department's research budget will be spent on biotechnology. Rather than increasing the dollars for biotech research. the Administration proposes a $2.4 million decrease. Explain the rationale behind this proposal.

Answer. USDA support for biotechnology research has increased significantly in recent years from less than $25 million in 1981 to an estimated $93.6 million in 1988. The 1989 decrease you mention results from program priority shifts which have reduced work in certain topics and thereby indirectly reduced support for biotehnology. Within total estimates for biotechnology reearch, certain categories such as competitive grants and Forest Service biotechnology, continue to show increases.

Question. What data are available on the research expenditures of other countries for agricultural-related biotechnology research? Please provide this information to the Committee.

Answer. We do not compile data on agriculture-related biotechnology research expenditures for other countries. However, we located the following information on total biotechnology research expenditures through a review of the literature:

Country	Dollars in Millions
Belgium	$27
Denmark	73
France	184
Germany	179
Ireland	22
Italy	38
Netherlands	22
Spain	24
Sweden	82
Switzerland	66
United Kingdom	147

The above information was obtained from the July/August 1987 issue of Genetic Engineering News.

Information included in the 1987 National Research Council study you reference indicates total U.S. biotechnology spending at over $2.1 billion with about $245 million of that related to agriculture.

RESEARCH - LOW-INPUT AGRICULTURE

Question. In order for our farmers to compete in the marketplace, as has been proposed by the Administration several times, our producers must continue to work to lower their cost of production. They must make do with the use of fewer, more effective and efficient inputs. These could include integrated pest management, biological controls of pests and legume-based crop rotations. One recent study showed that farmers who switched to low-input practices cut their cost by an average of 12 percent.

As part of the 1985 Farm Bill, Congress passed Subtitle C, the Agricultural Productivity Act to promote the development and adoption of low input agriculture. The Senate Report to the Food Security Act of 1985 directed USDA to undertake an extensive low input program including research on methods, systems and educational efforts. The Department to date has responded in only a limited fashion to this directive.

Explain the limited financial support devoted to Subtitle C of the Food Security Act of 1985. What is the Department's rationale behind the elimination of $7.1 million from the integrated pest management program operated under the Extension Service?

Answer. Funds for this program were first appropriated in FY 1988. A total of $3.9 million is available and we a represently in the process of planning and implementing the program. Although not specifically under the authorities of Subtitle C, the Agricultural Research Service and the Cooperative State Research Service both support research in low-input farming systems. We estimate that support at $103 million and $72 million, respectively, for FY 1988.

We are proposing the elimination of earmarked funding for a number of programs, including integrated pest management, in favor of funds to implement new priority initiatives. These national interest programs have been developed with broad-based input of extension providers and clientele. Non-earmarked funds with Smith-Lever would be available at the discretion of the states to continue integrated pest management programs.

HIGHER EDUCATION IN AGRICULTURE

Question. During the last two decades, USDA scientist-years have decreased slightly while the demands on agricultural research have been greater than ever. There is an acute shortage of scientists trained in new disciplines such as genetic engineering. The number of USDA scientists 50 years of age and older is drastically increasing while the number of those scientists 30 years of age and under are decreasing to less than 5 percent. By way of comparison, at the National Institute of Health, the number of scientists under 30 years of age greatly outnumbers those over 50 years.

The National Research Council and Office of Technology Assessment studies find that insufficient federal training programs exist to meet the demand for scientists competent in agricultural biotechnology and other sciences. USDA itself is forecasting a 17 percent annual shortfall in the number of scientists, engineers and related specialists in agriculture. What proposals does the Department have to attract new individuals to technical agricultural professions?

Answer. The Department's Higher Education Programs office in the Cooperative State Research Service has developed baseline data relative to the food and agricultural sciences higher education system. In carrying out this activity, the Department has recently become a co-sponsor of the National Science Foundation's (NSF) Doctorate Records Project and will be obtaining special analyses relative to Agriculture from those data. Additionally, we have successfully negotiated with the NSF to obtain information on their currently conducted Graduate Student Support Survey relative to USDA support for graduate students. The accumulation of these data and other data into the Food and Agricultural Education Information System enable the Department to estimate needs within academic disciplines and thus facilitate recruitment efforts aimed at assuring the Nation of outstanding food and agricultural sciences expertise. The Department has also cooperated with the Department of Education to co-sponsor a study by the National Academy of Sciences to critically examine vocational and technical education related to agriculture in secondary schools. This study is expected to improve the curricula related to agriculture and thereby create a desire among science oriented high school students to pursue and complete a degree in one of the food and agricultural sciences.

Colleges of Agriculture and Natural Resources are also working diligently to improve their recruitment and retention programs, to augment faculty development opportunities, and to strengthen curricula. Many are working in concert and are sharing resources for the solution of mutual problems. Opportunities exist to attract students from other than the Colleges of Agriculture and Natural Resources into careers in agriculture.

The Agricultural Research Service has operated a post doctoral research associate program since 1982. The program provides recent doctoral degree recipients with an opportunity to perform basic research and receive advanced training and also serves as a means of recruiting highly qualified young scientists. There are currently about 300 perticipants in the program.

Question. In light of the shortage of trained agricultural scientists, why did the Department request to eliminate the USDA Graduate Training Grants program and other higher education initiatives?

Answer. Other than the Higher Education Strengthening Grants program for 1890 land-grant institutions, the Department is not requesting funds to support the Graduate Training Grants program. Support for the development of agricultural expertise will be provided through an increased Competitive Research Grants program and through the provisions of the Hatch Act and related base formula funded programs.

TARGETED EXPORT ASSISTANCE PROGRAM AND THE COOPERATOR PROGRAM

Question. Please submit a detailed description of the documentation needed by an applicant in the TEA and cooperator programs to secure funding.

Answer. The information you have requested follows:

The documentation needed by an applicant to secure TEA program support is listed in a Federal Register Notice that announces the availability and conduct of the program and establishes a deadline for the submission of applications. This documentation provides the criteria upon which FAS bases its allocations. The documentation includes a review of the commodity or product to be promoted and the degree to which the organization represents U.S. producer interests on a commodity or nationwide basis; the degree to which exports of the commodity or product may benefit from promotional activities; the dollar amount of assistance requested; the identification of an unfair foreign trade practice and the extent to which it has already affected actual or potential exports of the commodity; the extent to which the applicant organization is willing to contribute resources to the joint project; the organization's prior export development experience and the adequacy of its administrative and personnel resources for the purpose of planning and managing the requested program level; the historical export levels of the commodity or product; the anticipated likelihood of success of the proposed project in terms of increasing U.S. exports or mitigating the unfair trade practices or its effects; whether or not the commodity is in adequate supply; and the extent to which the composition of the commodity or product is U.S. origin. Products whose composition is less than 50 percent U.S. origin, computed on a volume or value basis, will not be considered.

For the Cooperator program, existing organizations that have Cooperator status have annual funding provided through an established formula under which the program has operated for the past 33 years. This formula is based upon expenditures in a previous year's annual plan of market promotion activities plus a margin, based on performance, for increasing the annual base budget. Preference is given to establishing agreements with nonprofit organizations that represent the export interest of a commodity sector with the intent that the benefits derived from market development activities will be translated back to the broadest possible sector that the organization represents. For new organizations desiring participation in the Cooperator program, certain conditions must exist before FAS will enter into a cooperator agreement with an organization. These include: the probable success in maintaining or increasing foreign consumption and imports of U.S. agricultural commodities; the long-range contribution to U.S. agricultural exports; the importance of exports of the commodities involved to U.S. agriculture and the U.S. balance of payments; the extent to which the project is in harmony with U.S. foreign policy; the ability of the Cooperator to provide a competent, experienced U.S. based staff and other resources to assure adequate development, supervision and execution of project activities; the extent to which the Cooperator represents U.S. agricultural commodity interests; the willingness and ability of private organizations to back up

promotional activities with aggressive selling and adequate supply of commodities of the quality desired by foreign buyers; the competition in the market; and the cultural, political, and economic obstacles which restrict imports of the agricultural commodity into foreign markets.

Question. Please submit a description of the criteria utilized by FAS in evaluating applications for funding under these programs.

Answer. The criteria we use in evaluating applications for assistance under these programs are identical to the information contained in the applications. For the TEA program, this is specifically indicated in the Federal Register announcement.

Question. Please submit a description of the type of plans submitted by applicants under these programs that FAS has determined to describe adequately the type of marketing or other operation the organization intends to implement using funds provided under these programs and at least two examples of plans that FAS has chosen not to fund.

Answer. These plans must first conform to the format specified in the guidelines appropriate for that program. The type of plans deemed adequate may vary depending on the program as well as the commodity being covered. Basically the plan must describe the market in which the activities will take place, the constraints that the commodity faces in that particular market, a description of each activity and how it will address a specific constraint, and a description of the funding required to conduct the activity.

In the Cooperator program, marketing plans tend to be oriented toward trade servicing and technical assistance activities or activities to develop a market for that particular commodity. These types of activities are suited to the bulk commodities typical of the program. In addition, the activities must address specific constraints the commodity faces in that particular market. Typical constraints include the lack of product awareness or knowledge in the importing country, and competition with alternative supplies. Examples of the types of activities that have received funding to overcome these constraints include the following:

1. technical teams from the importing country come to the U.S. for training;
2. short courses for appropriate personnel from the importing country;
3. technical seminars in the importing country;
4. demonstrations and comparative studies; and
5. trade missions.

Activities supported under the TEA program and described in submitted activity plans tend to be oriented toward promotional activities and focused on the consumer market. While activities address specific constraints in a particular market, a primary intent of the program is to gain immediate sales of the commodity being promoted. Typical examples of the types of activities being assisted include in-store promotions and advertising campaigns. Following are examples of some types of activities approved in the TEA program.

1. coordination with importers and major retailers to initiate special advertising features;
2. strategies to differentiate the American commodity from competitors in the same market;
3. in-store demonstrations with professional chefs; and
4. promotional activities to influence the commercial/industrial trade.

Only groups that have been accepted into the Cooperator or TEA program actually submit marketing plans. As a result, applicants to either program are accepted or not accepted prior to the submission of plans. Thus, FAS does not reject the funding of entire plans, but may choose to modify plans to meet program qualifications and guidelines, or may reject certain activities within a plan. This is done in consultation and coordination with the group submitting the plan. An example of an application for which FAS chose not to allocate TEA resources is the Oregon Feed, Seed, Grain and Supplies Association. Their proposal for TEA was not supported primarily because the Association did not appear to have a strong mandate from its members for export promotion activities and did not appear to have demonstrated experience and expertise in the area. The Association's ability to share in the costs of the program was also not clear.

Question. Please submit a description of the method of evaluation of TEA or cooperator projects utilized by FAS with examples of projects FAS has determined to be successful and therefore worthy of receiving additional funding.

Answer. Following are the results of a number of evaluations carried out during the past year which demonstrate both effectiveness and potential for future sales increases:

-- Promotion of lentils in Spain resulted in a 66 percent increase in export sales and a projected growth of 5 to 10 percent annually;
-- An evaluation of rice promotion in Germany showed a significant increase in consumer awareness of the nutritional and economical features of rice;
-- A sample shipment of U.S. wheat to Korea resulted in immediate sales of 12,400 tons;
-- The Southern United States Trade Association and the Eastern U.S. Agricultural and Food Export Council have submitted evaluations of point-of-sale activities in Japan and France, respectively, showing a substantial increase in sales.

FAS is developing detailed evaluation guidelines and reporting requirements for use by both TEA participants and FAS staff to better ensure that evaluations are effectively used to plan and manage ongoing and future activities. Each TEA agreement will provide for evaluations to be conducted,

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Question. Given that animals cross from federal to state and private lands in the wild, and that damage to private and state property is done by these animals, please explain why no funds are proposed for Animal Damage Control on State and private lands in FY 1989.

Answer. Since the States, local governments, and industry are the direct beneficiaries of control activities performed under the Animal Damage Control (ADC) program, no Federal funds have been requested in FY 1989 for such activities on State and private lands. Over the 57 year history of the program, the States and industry have developed the expertise necessary to carry out these control activities. The Department will continue to provide technical assistance, conduct research, and carry out control programs on public lands. Further, if requested and paid for by the States or landowners, the Department will conduct control activities on State and private lands.

EXTENSION SERVICE

Question. The Department is requesting an additional $4 million for groundwater research and $2 million for improving pesticide application techniques. Over $10 million was available for these activities last year. Is the Department disseminating its findings to farmers through the Extension Service or other means?

Answer. The Department disseminates research findings through several agencies which have farm programs. The Extension Service, in combination with the Cooperative Extension System,. does disseminate research findings that have been adapted for farmer use. Several other agencies, such as the Soil Conservation Service, Forest Service and Agricultural Stabilization and Conservation Service, also funnel information to producers.

Question. What is the Department doing now to help farmers protect water quality?

Answer. The Extension Service, as part of the pesticide applicator training program and integrated pest management program, educates producers in the safe use of pesticides. Other programs in crop and animal production and protection are designed to minimize the risk of deteriorating the water quality through efforts in nutrient applications, crop selection and rotation, irrigation, waste management and other related programs in agriculture and natural resources.

FOREST SERVICE

Question. In meeting this country's food and fiber demands, we have finally moved towards an agricultural policy that encourages crop production on highly productive land while discouraging production on fragile lands -- lands on which the costs to society of having them in production are greater than their agricultural contribution. Do you believe that this policy should be followed with respect to meeting our timber demands as well?

Answer. We believe that the policy is already being followed to the degree warranted. Timber production on National Forest System lands administered by the Department of Agriculture is already subject to a systematic determination of which lands are appropriate for timber production through the land management planning process required by the National Forest Management Act. In addition, the Clean Water Act and sundry other statutes including the National Environmental Policy Act provide adequate safeguards that timber production and harvesting will be accomplished in a responsible manner.

With respect to timber production on non-federal lands, we do not believe that there is the same type of Federal interest that there is in agricultural production, nor is there the leverage to influence private activity that the various agricultural price stabilization programs provide. Historically, regulation of timber production on private lands has been a matter of State legislation through the enactment and enforcement of various forest practices acts. We believe that this is appropriate, and that it has served the Nation well.

Question. The Forest Service admits that U.S. private non-industrial forest lands could double their timber volume if better managed. Why then does the proposed budget contain no funding for state and private forest management and utilization?

Answer. As a matter of policy, the Administration believes that in situations such as private timber production, where the primary beneficiaries of a management and utilization program are individual landowners, timber companies, and a few states where such production is concentrated, the legitimate Federal role should be restricted to conducting research and compiling selected national level statistics. The timber companies who are dependent on non-industrial forest landowners for their supply, and the states whose economies might benefit from expansion of the timber industry should provide the resources for the type of forest management and utilization programs funded in the past by the Federal Government.

SOIL AND WATER CONSERVATION PROGRAMS

Question. The passage of the conservation title of the 1985 Food Security Act was a legislative landmark. These provisions will affect over one million farms between now and 1990. By 1990, 1.2 million farms will require a highly erodible or a wetland determination from SCS. By 1990, 800,000 farmers will have had to meet with SCS field personnel to verify a current conservation plan or develop a new one. All told, these provisions will affect 169 million acres, or 43 percent of this country's farmland. Are you still committed to these conservation provisions, including meeting the 1990 timetable on conservation compliance determinations and plans?

Answer. Yes, I am still committed to those conservation provisions, and the Soil Conservation Service people assure me that they will be able to complete the required determinations and conservation plans by 1990.

Question. The President's budget proposes to terminate the Agricultural Conservation Program, the Water Bank Program, the Forestry Incentives Program, the Emergency Conservation Program, the Great Plains Conservation Program, and the Colorado River Salinity Control Program. Will these program eliminations hinder the achievement of the 1990 timetable for conservation compliance plans?

Answer. The limitation of these programs will have little or no effect on the development of conservation plans. Conservation compliance requires the plans to be technically and economically achievable. In situations where permanent vegetation cover is needed to achieve compliance, the Conservation Reserve Program contracts are an alternative.

Question. Please provide the Committee with the average soil loss reduction (in tons per acre) on lands treated under the above programs, by program for each of the last 5 years.

Answer. Of the programs mentioned only the Agricultural Conservation Program (ACP) and the Great Plains Conservation Program (GPCP) have soil erosion control as their primary objective. The other programs may have secondary erosion control benefits, but no data is available on soil loss reduction.

The Conservation Reporting and Evaluation System was implemented in 1983 on a pilot basis to collect soil loss data for ACP and to determine the cost-effectiveness of the various conservation practices. In 1984, the ACP system was expanded to include data from all states.

(The information follows:)

Average Soil Savings
(Tons per Acre)

Program	1983	1984	1985	1986	1987
ACP	a/	6.0	5.7	5.8	5.7
GPCP	(1981-1985 average 11.1)				

a/ No data available.

Question. Please provide the Committee with the average cost to the federal government per ton of soil saved on lands treated under the above programs, by program for each of the last 5 years.

Answer. We will provide the information for the record. (The information follows.)

Average Cost Per Ton of Soil Saved
(Dollars per ton)

Program	1983	1984	1985	1986	1987
ACP	a/	$.60	$.60	$.60	$.63
GPCP	(1981-1985 average $.20)				

a/ No data available.

QUESTIONS SUBMITTED BY SENATOR DASCHLE

FCIC OVERPAYMENTS

Question. I understand that the Federal Crop Insurance Corporation has finally gone ahead with reorganization efforts in response to the overpayments in claims and other problems highlighted in GAO investigations. The South Dakota office will become a claims office with fewer staff as a result of this action. What will be the impact on South Dakota producers and what are the cost benefits?

Answer. FCIC has reorganized its field structure in part to provide for a greater emphasis on compliance and quality control. The agency hopes to achieve cost savings and greater service efficiency which we think will make for a stronger program and be of greater benefit for farmers. Further, the program will continue to be delivered in close cooperation with private insurance agents and reinsurance companies, which will remain as the main point of contact for most farmers.

FmHA LOANS

Question. Mr. Secretary, since 1980, spending on rural programs has declined nearly 25 percent. Yet conditions in rural America are not much better. In South Dakota alone, 9 counties rank as the poorest in the nation. I find it difficult to justify the proposed cuts for FmHA direct ownership loans and emergency disaster loans. Can you explain whether or not the Administration request reflects an increased availability of credit from commercial banks or whether or not there are studies and figures that indicate that these funds are not needed?

Answer. We are requesting $4.2 billion in FmHA farm loans, considerably more than the $3.1 billion used in 1987. Direct farm ownership loans would be terminated, but $100 million would be available for guaranteed farm ownership loans. More importantly, $4.0 billion would be available for farm operating loans. Of this amount, $3.5 billion would be guaranteed loans, credit supplied by private lenders who make and service the loans with FmHA providing a guarantee against loss. We think that the amount and mix of our budget request offers the best opportunity possible for helping farmers stay in business.

With regard to emergency loans, the budget provides $100 million which is only slightly less than the $114 million used in 1987. The level of the emergency loan program is down from prior years due to a number of legislative changes in the program. Also, FCIC crop insurance is taking the place of this loan program. An indemnity payment is of more help than a loan.

TARGET PRICES

Question. I commend you, Mr. Secretary, for meeting the guidelines agreed to in the budget summit. I am happy to see that target prices are maintained and other commodity programs reflect the agreement. However, I am concerned in the event that budget figures are under estimated. What would the Administration propose for additional cuts? Would you propose changes in commodity programs?

Answer. The FY 1989 President's Budget represents a good faith effort to abide by the budget agreement arrived at last December in connection with the Budget Reconciliation Act of 1987. The Administration is not planning to submit new legislative proposals, with the possible exception of a sugar reform proposal, in the FY 1989 budget. If the budget deficit is underestimated and additional reductions are called for under the Gramm-Rudman-Hollings process, a range of Government programs, including the commodity programs, would have to be revisited. We cannot be specific at this time as to which ones would be targeted for reductions. As with last year's Reconciliation bill, any program reductions proposed by the Administration would have to be approved by the Congress.

RURAL DEVELOPMENT

Question. I understand that you testified before the Senate Appropriations Committee on Rural Development and you mentioned that USDA has made vast strides in this area, citing as examples the hot line at the National Agricultural Library, and meetings with agency heads within USDA. Frankly, these are important first steps but they fall short of addressing the problems of technical assistance, infastructure, and adequate water and waste treatment facilities. What has the Department done in this area, and what will the future hold for your development in rural areas?

Answer. The budget proposes to continue funding for the FmHA water and waste disposal loan and grant programs, community facility loans, and the business and industry loan guarantee program. Although the funding is less than was available in 1988, we feel the budget meets the critical needs of rural areas and also meets the need to reduce the deficit.

BIOTECHNOLOGY AND BIODEGRADABLE PRODUCTS

Question. Last year the Committee authorized $40 million for research in biotechnology and biodegradable products. Does the Administration support these efforts to diversify the agriculture economy and improve non-food uses of traditional crops and what actions have been taken in this effort?

Answer. The U.S. Department of Agriculture has long been aware of the potential which exists for the creation of industrial and commercial products from agricultural crops. Regional laboratories devoted to product research and development were first authorized by Congress in 1938 and many new products derived from agriculture have resulted. A recent example is a biodegradable plastic developed by USDA scientists at the Northern Regional Research Center in Peoria, Illinois. This product is a fast degrading resin which is 40 to 50 percent cornstarch. The cornstarch-plastic resin could partially replace petrochemicals in polyethylene products.

Following the "Secretary's Challenge Forum on New Uses for Farm and Forest Products," USDA proposed and Congress has appropriated funds for an initiative to develop new uses for a variety of crops and livestock surpluses, and to develop new

products for export. Agricultural Research Service programs were expanded in 1987 and additional investigations began on several agricultural raw materials, including starch, vegetable oils, cotton fiber, and tallow. New technologies are being investigated to develop non-food products such as detergents, paints, lubricant oils, construction materials, greases, and others.

In 1984, the Cooperative State Research Service established a program to commercialize alternative, non-food agricultural crops as sources of strategic and critical raw materials for development of industrial products and markets. Cooperative projects and programs with private industry, public institutions, and academia are planned and implemented to progressively remove agricultural and industrial barrers which impede emergence of an agroindustrial system, i.e., an economically and technologically rational system from seed production to final product marketing. Under this program, significant advances for guayule as a source for natural rubber, and kenaf for use as newsprint, have been made. A joint crambe/rapeseed project for erucic acid shows near term promise and other possibilities and opportunities are being explored.

In conclusion, the Department supports and is actively engaged in research and development to fund new uses for farm and forest products. The Department presently has sufficient authorities to develop and produce marketable products from agricultural raw materials and to allow Congress to make appropriations for that purpose. Diversification of the agricultrual economy and development of non-food uses for traditional crops are ongoing activities within the Department as well as at many of our Nation's Land-Grant Universities and Colleges, and by the Forest Products Laboratories.

ANIMAL DAMAGE CONTROL

Question. On March 2, I wrote you a letter regarding the Animal Damage Control Program. South Dakota ranked fifth in the nation for number of sheep and sixth for the number of sheep producers. Aerial hunting and trapping efforts are critical to ranchers, yet your request is lower than allocations from last year. Can you please explain how funds are allocated to particular states and whether or not states will have the funds to continue these programs. (Letter on following page.)

Answer. Animal Damage Control funds are allocated based on Federal priorities and needs identified by the various ADC organizational units. These organizational units include the State offices which conduct operations, the Denver Wildlife Research Center, the National Technical Support Staff, and the Deputy Administrator's office. Each unit bases its needs estimate upon historical spending patterns, anticipated needs, and requests for assistance from cooperators. While the States will continue to receive Federal funds in FY 1988 for control activities on State and private lands, the Administration's FY 1989 budget proposes to terminate all such assistance unless requested and paid for by the States or landowners.

THOMAS DASCHLE
SOUTH DAKOTA

United States Senate

WASHINGTON, DC 20510

March 2, 1988

Honorable Richard Lyng
Secretary of Agriculture
United States Department of Agriculture
Washington, DC 20250

Dear Secretary Lyng:

I am writing regarding the Animal Damage Control program. As you are probably aware, this program is essential to farmers and ranchers in South Dakota in controlling predators on both public and private lands.

South Dakota ranked fifth in the nation for the number of sheep and sixth for the number of sheep producers. Predators are a great source of economic damage to the sheep industry. With South Dakota funding levels decreasing by almost $64,000 and lambing season quickly approaching, I am concerned that this cut in funding would hamper both aerial hunting and trapping efforts provided by ADC.

I would appreciate an explanation of how funds are allocated and why South Dakota is receiving a smaller percentage of funding.

I am also concerned with the agency plan to transfer services from the South Dakota office to Nebraska, after the current South Dakota Director retires. I would like to request an explanation of the impact that this change of administration would have on South Dakota, and any change of services South Dakotans could expect.

With best wishes, I am

Sincerely,

Tom Daschle

Tom Daschle
United States Senate

TAD/bjr